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Creating a Successful Outsourcing Relationship

Considering all the factors

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In the next hour we will discuss...

- How the maturity of outsourcing has impacted partnerships and governance
- How the governance of outsourcing impacts organization design
- Hear from industry experts about real situations and client examples

Ground rules

- The more questions... the better
- Feel free to share your experiences
- Discussion, not a lecture – we welcome spirited debate!



Our Expert Panel

Jamie Curcio

Partner – Curcio Webb

Michael Hager

President – Hager Strategic

Tony Herron

Partner – TPI



What is Governance?

Governance is the system by which businesses activities are **directed and controlled**. The governance structure specifies the distribution of **rights and responsibilities** ... and spells out **rules and procedures** for making decisions. By doing this it also provides a structure through which **objectives are set**, and the means of attaining those objectives and **monitoring performance**.

Or simply...

How will we lead the function (**even when it is outsourced**) and align our investments with business needs.

The Outsourcing History So Far

Infancy

1960s: Payroll processing

1980s: Processing of health claims, recordkeeping of 401(k) plans and pension plans

Adolescence

1999: First comprehensive HRO contract signed between Exult and BP Amoco

Early 2000s: Big agreements with top industry players (P&G, Motorola, AT&T) are dominated by 'lift & shift' – mirroring IT outsourcing

Maturity

Mid-2000s: Outsourcing advisors mature the process – delivering clear statements of work, unit pricing and SLA

Earliest outsourcing agreements come up for renewal – 'rise of the educated buyer'

Industry consolidations, Benefits remains the strongest provider market

And governance follows suit

1960s: Vendor Managers = Service Managers

1980s: 'The Benefits Committee'

1999: 'Outsourcing PMOs'

Early 2000s: The realities of Governance meet 'The Contract'
Internal & External SLAs

Mid-2000s: Not a vendor, but partners

Clarity of roles – buying "outcomes" not process

Organization Design concurrent with Governance Design

Case Study 1 – Jamie Curcio (Curcio-Webb)

Situation

- Printing company – 20,000 employees
- Field HR was historically involved in Benefits delivery
- There was no communication about how HR's role would change after outsourcing Benefits
- Governance had become challenging, compliance risks were unacceptable, HIPAA concerns existed and complaints were escalated to the CEO

Challenge

- Many field HR staff had served in their role for 20+ years
- Culturally, change was difficult to enact – among employees and HR
- The confused communication channels created a perception of poor outsourcing provider service

Solution

- Met with provider on several occasions to refine governance structure and process
- Created a governance policy document
- Communicated clear details about responsibilities
- Conducted training to field HR re: their revised roles

Outcome

- Perception of service increased significantly – survey results went from 68% participant satisfaction to 87% in 1 year
- Plan sponsor became much more comfortable about issues like compliance
- Plan sponsor was in a much better position to manage the relationship
- There were no more complaints to senior management

Case Study 2 – Michael Hager (Hager Strategic)

Situation

- To meet aggressive implementation dates, client went “live” with some manual processes and without full case mgmt reporting
- Manual processes were “error rich”, compounding the service issues expected during any implementation
- Lack of data made it difficult to respond to ‘noise’ from Business Units

Challenge

- Cases were opened & closed without reports to track timing, and without agreement about case resolution times
- Business Unit HR opened a “back channel,” voicing services issues to Corporate, but not informing the outsourcer
- Corporate HR and vendor losing credibility at the outset. Needed data and facts and to gain control of the situation

Solution

- Fully implement case mgmt reporting.
- Focus on cases open longer than 30 days (“tails”)
- Put action plan in place to automate manual processes
- Communicate case management process to Business Unit HR, and provide reports

Outcome

- Client and vendor successfully worked through backlog of open cases and reduced “tails”
- Satisfied, Business Unit HR communicated (and followed) the process
- “Noise” diminished significantly
- Manual processes were prioritized based on volume and were gradually automated

Case Study 3 – Tony Herron (TPI)

Situation

- Large retail organization outsourced DB, DC and H&W
- After two years, the client concluded too many participant issues were being escalated to their staff
- Client also felt they were paying too much (both base fees and change orders)
- There was a lack of trust between both organizations
- The client had a weak governance structure

Challenge

- We needed to find a way to:
 - Ensure proper management of participant issues by the service provider
 - Prove whether the base fees were competitive
 - Gain control of change orders
 - Rebuild trust between both organizations
- We also needed to build a governance structure that would provide effective vendor management

Solution

- Implemented new escalation and change order processes
- Strengthened the Statement of Work
- Benchmarked SLAs, contract terms and fees
- Set up several face-to-face meetings between the client and service provider
- Formed a formal governance structure and trained the members of this team on vendor management techniques

Outcome

- Escalations were reduced to an appropriate level
- Client gained control of the change order process
- New SLAs and contract terms were negotiated
- Base fees were lowered
- The new governance structure proved to be very successful
- Today, this client is one of the service provider's top references

Checking the Health of your Governance Model

- Do you have a formal process for gathering input from business units?
- Can you document today's investments? Tomorrows?
- Is field HR, or is the Benefits department doing work that you have already outsourced?
- Are you getting unexpected out-of-scope charges?
- Do Mergers & Acquisitions run smoothly with your outsourcer?
- Are there meetings, dates and deliverables associated with your governance model?
- Do you manage your outsourcer? Does your outsourcer manage you?



Questions?



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