

Enabling HR Outsourcing Below the Large Market for Oracle HRO Providers

*An Oracle White Paper
April 2009*

Enabling HRO Below the Large Market

EXECUTIVE OVERVIEW

Organizations can choose to perform the Human Resources function using a variety of delivery methods including on premise, Software as a Service (SaaS) and Business Process Outsourcing (BPO). By choosing Human Resources Outsourcing (HRO), a company can shift either all or a portion (e.g. payroll) of the HCM process from their own organization to a world-class provider that delivers not only cost savings but best practice as well by providing both the function and the labor that goes along with it. HRO has been embraced by the large market segment (over 10,000 employees) over the past decade. The mid-market seems to be an even better fit for HRO but there have been fundamental issues with this market's ability to offer the appropriate mix of capabilities to match demand at a price point that works for both the provider and the customer. That is, until now.

WHY THE MID-MARKET IS LOOKING FOR HR OUTSOURCING OPTIONS

There are essential differences between the large market and the mid-market when it comes to selecting an offering for Human Resources Outsourcing (HRO). The large market customer in general is more complex with more funding and staffing to deal with their complexity. In contrast, the mid-market customer operates in a more competitive space with smaller margins and a leaner staffing model.

The primary concerns of a potential mid-market HRO customer are heavily influenced by this lean staffing and fall into the categories discussed below.

Managing Legislative Requirements Domestically and Globally

Mid-market employers have long been the primary candidates for outsourcing of payroll due to the legislative complexity of that function. Payroll, however, is not the only function within the sphere of Human Capital Management (HCM) with significant legislative requirements. Recruiting and staffing have legal requirements that vary by country while basic Human Resources is a function

"The credit crunch and resulting economic downturn have had a massive impact on organizations, often forcing organizations to rethink their entire proposition and value chain. Similarly the economic downturn is changing approaches to outsourcing support functions such as HR , F&A, procurement and entire shared services facilities as organizations seek maximum cost saving and a rapid payback with the minimum of investment."

- Nelson Hall, January 2009
Market Analysis by Rachael Stormonth

completely defined by regulatory compliance requirements. Small and medium-sized businesses often lack the expertise in house to manage these functions in a compliant fashion.

Additionally, in an increasingly global economy, it is no longer just the large enterprises that require the need to extend business operations around the world. Small and medium-sized businesses in many industries are finding the need to expand beyond the borders of the home country. Industries such as high technology, engineering and construction, and oil and gas are by nature global in their scope and requirements.

While the large market tends to have extensive resources available with detailed knowledge of local processes around the country and around the globe, this type of staffing is not feasible for the mid-market customer.

Outsourcing is a logical alternative for these companies. The HRO provider enables the business to remain compliant by providing not just the software applications which are built and maintained to current and future regulatory standards but also the expertise to facilitate the process.

Focusing on Core Competencies

The reason a business exists is to generate revenue and profit. As obvious as this sounds, it is one of the key reasons businesses outsource non-core functions such as HCM. Maintaining systems and functional expertise for the wide range of HCM processes is not within the core competency of most organizations.

In the current “War for Talent”, companies are generally more interested in acquiring and retaining exceptional people who will make their business grow and thrive than in operating and maintaining systems and expertise to enable these activities. The best uses of time for the HR department are in identifying potential leaders to promote from within, determining where top performers are being acquired, and developing and offering advancement to the most capable and valuable employees. Many HR departments would likely prefer to devote the majority of their time to these strategic initiatives but the actual use of time is rarely so strategic. Instead, HR professionals in many organizations spend large amounts of time dedicated to basic transactions in a variety of non-integrated systems and trying to compile accurate statistics and valid metrics from this disparate data.

“Globalisation, combined with an economic downturn, is making for extremely difficult business conditions”, observed Bill Thomas. “For HR departments this is translating into the challenge of delivering critical administrative processes, such as payroll and recruitment, efficiently and effectively whilst wrestling with huge strategic challenges in areas like Talent Management.”

- HR Outsourcing Sector Continues to Grow According to Leading Business Advisory Firm, EquaTerra

This leaves little time to devote to the strategic activities outlined above.

IT departments in the mid-market are generally not able to keep up with integrating software from multiple package vendors, creating useful analytics, or maintaining the various platforms. In addition, HR departments in these companies tend to employ mainly generalists who are quite competent at many functions, such as labor law compliance, compensation, and recruitment, but do not have a comprehensive mastery of any of them.

“Increasingly HR directors are looking to service partners to provide complete solutions for a genuinely fully integrated HR/payroll system allowing them to focus on delivering their business plans.”
 - Personneltoday.com

The core competency of the HRO provider is to have industry leading best practices across every HCM function they support. Benefiting from their broad customer base, a good HRO provider will be equipped to provide expert level processes for HCM around the globe, freeing up the client company to focus on its real business – making profits.

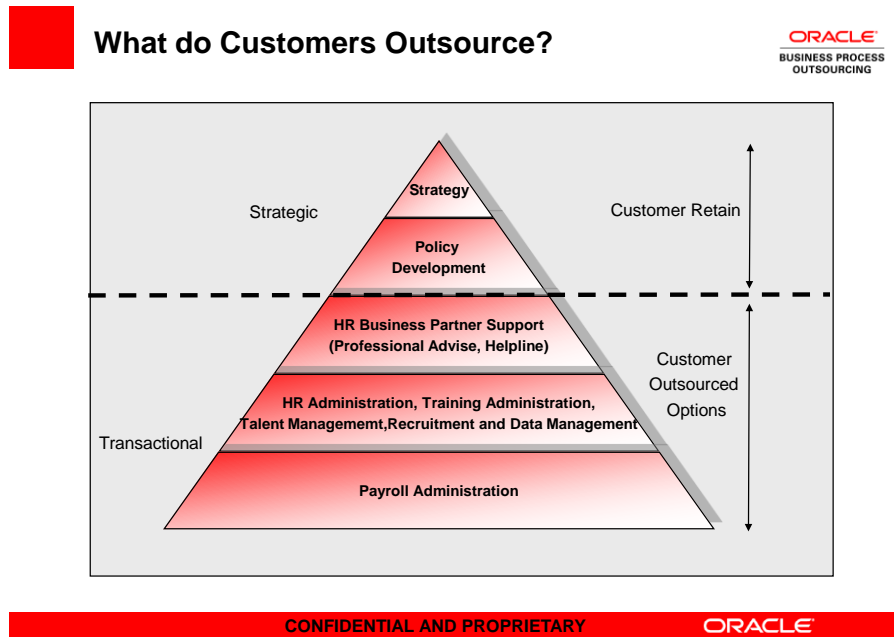


Figure 1: What do customers outsource?

Mergers and Acquisitions

In the current business climate of corporate consolidation, companies are more likely to grow through acquisition. This holds true for all businesses regardless of size.

When mid-market businesses combine, there are many challenges to deal with, not the least of which is the integration of the systems, data, and processes of the individual companies that are combining. Performing the integration of HCM systems is a project that takes significant effort from functional, consulting, and IT resources at a time when the newly merged company is under pressure to get accurate consolidated financial statements published.

There are cultural considerations to take into account as well. Which company's systems, processes, and strategies will be adopted by the post merger organization? The individual entities will most likely have had different systems: on premise, SaaS, outsourcing, or even a combination of all three delivery models many times with varying vendors. Consolidating these approaches and systems is often costly and time consuming.

In a merger or acquisition situation, outsourcing providers can offer significant savings in time, money, and labor to the customer. Providers can "Lift and Shift" the existing systems and assume responsibility for the management of the IT and the business processes, or the customer can choose to outsource all systems to the provider. In either case, the integration effort is no longer in the hands of the customer's internal IT department.

TRADITIONAL CHALLENGES IN MID-MARKET HRO

Confusing SaaS and HRO

If you ask 10 HCM professionals what the difference is between Software as a Service (SaaS) and Human Resources Outsourcing (HRO), you would probably get 10 different answers. Both are strategies which take the technical responsibility for installing, patching and maintain the HCM software out of the hands of corporate IT and place them into the hands of the provider. The similarities end there.

HRO offers the hosting and predictable cash flow modes that make SaaS attractive while delivering some very important benefits that SaaS does not deliver: business process services and expertise. While SaaS is a software deployment option with a subscription pricing model, HRO is the shift of the HCM process from the customer to a world-class provider that delivers not only cost savings but best practice as well by providing both the function and the labor that goes along with it. HRO is defined by best practice delivery from functional experts as well as labor arbitrage where the HRO provider takes

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ownership and responsibility for discreet HCM functions. Examples of this include check printing, tax filing, benefits administration management, employee help desk services and training administration. This labor arbitrage makes HRO an attractive cost saving option for its customers. In contrast, SaaS can actually be more expensive over time than traditional deployments because customers gain only IT savings - not labor savings. These are very distinct differences that the HRO providers need to define better in the marketplace.

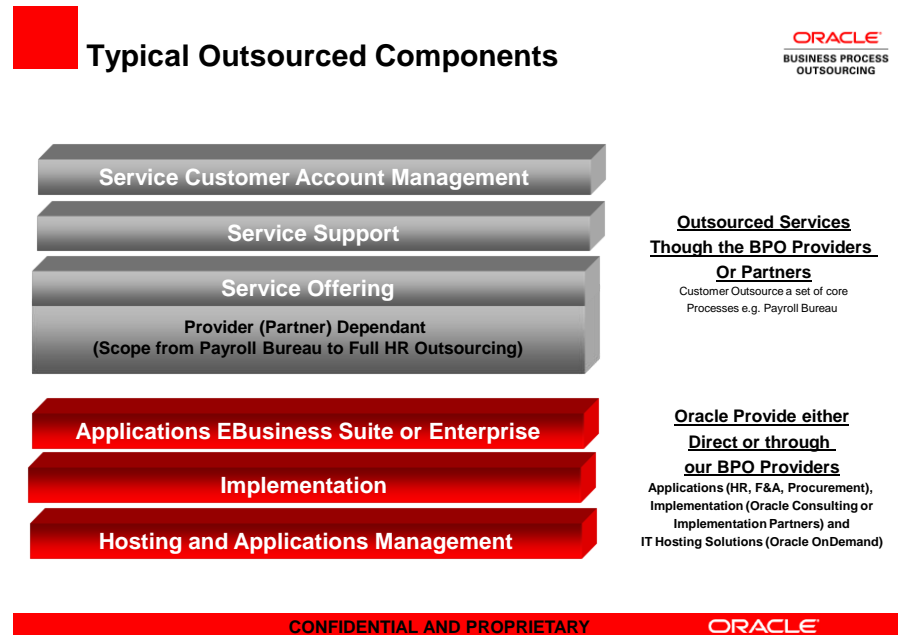


Figure 2: Typical Outsourced Components

Cost and Profitability

Price sensitivity among mid-market customers is high; therefore providers must strive to reduce the cost of service in every possible way. Especially in the current economic conditions, cost savings is a paramount concern for all businesses.

Historically, HR Outsourcing has not fully delivered on the expectations of cost savings and process improvement for most customers. The reasons for the disconnect between expectations and reality includes many factors:

- Lack of standardization in systems and processes
- Incomplete solution footprints offered by providers
- Inadequate reusability of implementation and integration solutions

- No partnership approach between providers, customers, and vendors
- Excessive provider support costs

The five areas listed above can lead to cost overruns that are avoidable.

Lack of standardization in systems and processes

The mid-market provides a significant opportunity to put out a predefined standardized offering and to keep costs significantly lower. The ideal solution for the mid-market is to have a standard offering for all customers that contains industry best practice standard processes in a reusable fashion.

Most HRO relationships in the early part of this decade have been plagued with massive customization that is most common in the large-market space. No efficiencies of scale are gained by the provider, since they are operating highly customized systems for each individual client company. The mid-market provides a significant opportunity to put out a predefined standardized offering and to keep costs significantly lower. The ideal solution for the mid-market is to have a standard offering for all customers that contains industry best practice standard processes in a reusable fashion. Customers would have the option to expand upon the standard offering if their requirements necessitate.

Providers tend to focus the bulk of their systems standardization on just a few core applications such as core HR and payroll. Other processes, if available at all as a part of the service offering, might be on entirely different platforms. This lack of synergy at many providers can create the following results: 1.) Lower end-user employee adoption due to lack of a consistent User Experience and 2.) Creation of a custom user interface developed and maintained by the provider. Both of these scenarios can result in decreased customer satisfaction and an increase in the provider’s Cost to Serve (CTS).

Incomplete solution footprints offered by providers

Many vendors have an integrated core HR and Payroll offering but have to cobble disparate systems together with their core offering in order to enable functions such as Benefits Administration. And, they may need to partner with a number of additional vendors to get the Talent Management components of their solution. While this can be done, it is not at all efficient and requires constant monitoring and rework of the integration by the provider’s IT department. Providers would see a dramatic reduction in their own Cost to Serve (CTS) if they could define and deliver their service offering from a single vendor platform. By delivering one unified “User Experience” for all HCM-related functions, providers would eliminate the need to train their support staff on multiple user interfaces as well as eliminate any

costs associated with creating and maintaining a proprietary user interface.

Inadequate reusability of implementation and integration solutions

To achieve profitability in the mid-market, the HRO provider needs to offer a rapid, reliable reusable set of implementation tools and practices for a templated deployment of the offering. The costs associated with doing every customer implementation “from scratch” are prohibitive in a mid-market business model where speed to deploy determines when the customer revenue stream begins.

No partnership approach between providers, customers, and vendors

Partnership is a word often used but rarely understood in the HRO universe. When everyone is looking out for only their particular silo in the Customer-Provider-Vendor network, the ability to work together goes away. To be successful, the customer and provider need to have an approach that incents them to work effectively together. This means customers should adopt the “Best Practice” suggestions of the provider. Likewise, the provider should work with the platform software vendor to deliver the value of best business practice at the lowest cost to the customer. This partnership will result in solutions that fully meet the requirements of the customer and are delivered at the lowest cost possible.

Excessive provider support costs

A provider can incur massive costs in their customer support organization. If the employees of all client companies are being delivered good self service or phone-based tools to answer their own questions (Tier 0 support), the cost to the provider is nearly zero and the satisfaction for the customer is very high since they get their questions answered quickly and easily 24/7. If the self service tools are not offered, but the front-line call center staff is well trained, empowered to solve problems, and knowledgeable of the issues that may come up, solving problems on the first call (Tier 1 support) is also relatively inexpensive. It is escalation to Tier 2 (escalated expert) and Tier 3 (lawyer or other costly professional) support where the cost model is completely derailed. One of the most significant ways to keep the cost of support down is to provide excellent self service knowledge portals that are easy to use for the casual employee with extremely capable, well-trained, and engaged Tier 1 call center operators as the next line of support.

“As use of global delivery grows over time, the onus will be on HR BPO vendors to also maximize cost reduction through greater leverage of Tier 0 automated tools and technologies like employee self-service portals.”

— Robert Brown, Gartner Outsourcing and Vendor Summit, May 2008

HOW ORACLE ENABLES HRO BELOW THE LARGE MARKET

Multi-tenancy

Multi-tenancy in the HRO space is a requirement at the mid-market and small market levels because of the reduction in “Cost to Serve” (CTS). In a single tenant environment three servers are required for each client in order to fulfill the customary need for production, testing, and development environments. Multiply that by each client and the data center cost and maintenance becomes quite complex and expensive to maintain. Multi-tenancy allows multiple customers (tenants) to be managed in one database and server. From a technical standpoint this simplifies the maintenance of the environment and requires much less hardware and license to support.

Patching and updating are also issues in single tenant environments. In a single-tenant environment, each customer’s software must be upgraded and/or patched separately, thereby adding complexity, time, and cost to the equation. This can also create a situation where the HRO provider must maintain multiple code lines or release levels for various customers. All of this adds even more complexity and cost that trickles into the service center since support is directly impacted when faced with disparate environments.

Multi-tenancy streamlines the upgrade process in that the patching and/or upgrading is done only once for all customers. This ensures that all clients are on the same release/patch level and that the service offerings are always consistent. All this translates into lower support costs for the provider.

HRO providers need to be able to manage upgrades on their terms rather than having to adhere to a schedule dictated by their software vendor. This is not feasible when an HRO provider relies on a SaaS vendor for their platform as upgrades are done on the SaaS vendor’s schedule only. This is in complete contrast with Oracle’s approach to upgrades – the choice of when to upgrade is completely up to the HRO provider. In addition, Oracle’s native software application configurability eliminates the need for costly customizations that are required by other vendors thereby streamlining the upgrade process and providing enhanced functionality at a much lower cost. Multi-tenancy also streamlines the upgrade process in that the patching and/or upgrading is done only **once** for all customers. This ensures that all clients are on the same release/patch level and that the service offerings are always consistent. All this translates into lower support costs for the provider and a more consistent uniform delivery model.

A unique advantage to Oracle’s multi-tenancy is the ability to create and maintain both standard/shared and configured/tailored environments within one instance. Oracle’s platform enables the HRO provider to obtain the benefits of standardization along with the ability

to meet each customer's requirements without a separate customized instance of the application.

Having multiple tenants sharing an environment means that providers can leverage preconfigured implementation setups when adding new clients. Utilizing shared configurations also ensures that the configurations in question have been thoroughly tested and vetted for accuracy of process. This results in reduced time to go-live and therefore reduced cost. Reusable, templated, pre-tested configurations are a key to a successful offering in the small-to-mid-market for HRO.

Another advantage of the combination of shared and bespoke configurations is that each client can have a tailored user experience, to some degree, while sharing and maintaining the standardization of the business process that the HRO provider supports. For instance, a client can see their brand and have field labels with their terminology while still staying within the standard process that the provider offers and supports. This is a win/win for both client and provider where the client receives a tailored solution with no increase in the cost to serve to the provider.

Data security can be a concern when operating in a multi-tenant environment. This concern is eliminated because Oracle's platform security is unique in that it secures data down to the database level. Our security model ensures that even ad hoc reporting is appropriately secured and will only return a customer's specific information. The requirement to create and maintain one security setup for the application and a separate security set up for the reporting tools is thereby eliminated. This is yet another example of how Oracle's platform reduces complexity and lowers the cost to serve.

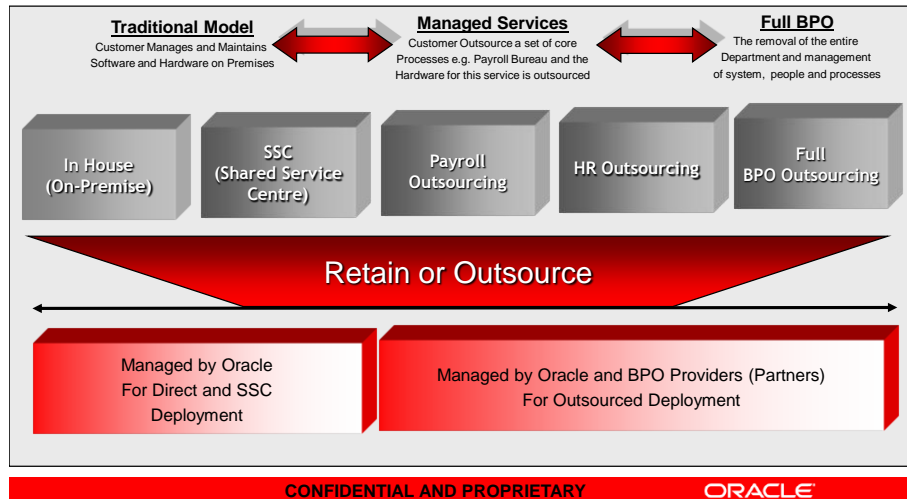


Figure 3: Oracle deployment options for our customers

Standardized Offering and Implementation Approach

Oracle enables providers to create standard templated, reusable configurations quickly and easily. This is key to our approach to implementation and lifecycle management. Our HCM portfolio is horizontal in nature with the ability for providers to configure and extend the application to meet the varying needs of vertical industries such as healthcare, public sector, or manufacturing. This approach helps to reduce the cost to serve and to deliver rapid yet bespoke configurations to reduce time to production. Service providers have insight into the specific requirements of the industries that they support and can easily create templates to map to these requirements while still leveraging best practices where the HRO processes are horizontal. Oracle's platforms allow the providers to offer these pre-built templates and utilize them as the basis for industry-specific implementations. To enable a viable business model in the mid-market, Oracle sees standard configurations with flexible, configurable extensions as the only model.

Simplification and Reuse

“HRO providers can no longer service all employees in the same one-size-fits-all manner anymore; they must deliver services in a way that allows a greater degree of personalization. This necessitates having standards that allow for efficient operations and effective services but includes the capability to optimize the processes beyond the standardization.”

— Kathleen Goolsby, “Game Changers in HR Outsourcing and Talent Management”, *Outsourcing Journal*, November 2008

Simplification of everything from implementation to ongoing lifecycle management of a provider’s applications platform and the reuse of content and configurations can be major contributors to the reduction of cost to serve required to be successful in the mid-market. Oracle enables both simplification and reuse with delivered tools and methodologies that allow the provider to deliver high levels of configured processes while maintaining the reusability required for profitability. Oracle’s tools allow providers to create templated, reusable configurations, to simplify and accelerate implementations, and streamline ongoing lifecycle maintenance. For example, our interview-based set-up scripts create initial organizational and core configurations in a fraction of the time of other platforms. Delivering best practice value sets with pre-defined content also assists in reducing implementation timeframes. Oracle tools streamline the movement of data and configurations between production, test and development instances to enable ongoing development and testing of new processes and programs.

Data loading through MS Excel spreadsheets with full validation allows customers to be more involved in initial data loads and population of data. Because customers are very familiar with their data, their involvement in this process allows providers to improve accuracy and provide validation checks prior to loading data into the applications, thus improving quality and reducing costly rework.

Global Reach

Oracle’s portfolio of software offerings in the HCM space is unparalleled in the global reach and scope of our offerings. Oracle uniquely delivers the ability to extend our software offerings globally without the traditional requirement to customize core code. Oracle’s offerings are live in over 150 countries around the globe and are extensible to “Go Anywhere” a customer does business. The ability to configure the system rather than customize code eliminates the possibility of becoming “version locked” - being unable to upgrade to the latest version of a vendor’s software due to extensive customizations – and the tremendous costs of reapplying customizations repeatedly every time an upgrade is done. While realizing it may not be feasible to build out solutions for all countries where your customers have employees, the ability to do so in a structured, supported methodology that will **not** require customization is invaluable.

Using Oracle's "Go Anywhere" concept, our customers have implemented payroll in many countries utilizing the same methodology that our internal developers use. Many of these payrolls have gone through multiple upgrade cycles that allow our customers and partners to leverage our innovation without the need to re-implement costly customizations. What this means is that within a single global instance of HCM, a provider can offer both the delivered localizations from Oracle as well as their own extensions – functionality that is unique in the packaged HCM applications space.

Technical and Application Hosting for Providers

"Time to Production" is a key metric in the outsourcing space and hosting can reduce that number by taking the worry of technical and applications management out of the equation.

Oracle is the only platform provider who can offer optional technical and application hosting services to our providers using a subscription pricing model. Oracle On Demand, the largest technical hosting provider of enterprise applications with over 10 years of experience, provides hosting and application management services for over 3.6 million end users. Oracle On Demand offers certified Oracle Database Administrators and technicians to manage both the technical and applications management side of a provider's business, thereby eliminating the need to set up and maintain a costly data center. Once again, cash flow smoothing is a huge benefit, the requirement to staff or train Oracle technical experts is eliminated. This allows providers to focus solely on designing, delivering and maintaining industry leading service offerings at an economical price point. "Time to Production" is a key metric in the outsourcing space and hosting can reduce that number by taking the worry of technical and applications management out of the equation.

Product Portfolio Completeness - Technology and Applications

Only Oracle can deliver a platform that is complete from the database level through middleware and applications all the way to business intelligence - all from **one** vendor. Concerns about platforms can range from scalability to openness and standards adoption to completeness of application capabilities to delivery of actionable metrics for end customers. From the technology components of database and middleware to functionally complete HCM applications that include Core HR, Payroll, Talent Management and more, Oracle is ranked a leader in these areas by analysts, thereby delivering and reducing risk at every level. The business intelligence tools available enable providers to deliver a complete offering to their customers as well as to assist in the operational intelligence necessary to run their business internally. Oracle is the only vendor that can offer this

complete end-to-end solution for HRO providers simplifying the provider-to-vendor relationship, streamlining the number of disparate IT skill sets, and lowering “Total Cost to Serve”.

**Unique HCM Toolset
for a Shared Service Center or BPO Provider**



Our Unique HCM Toolset Provides:

- ✓ Lower Cost of Ownership
- ✓ Repeatable Solution to your Customers
- ✓ Fixed Service Cost
- ✓ Configurable Solution
- ✓ Agile Technology
- ✓ One Version of the Truth
- ✓ Business Intelligence

CONFIDENTIAL AND PROPRIETARY ORACLE

Figure 4: Oracle’s Unique HCM Toolset

Examples of Oracle’s success in HCM applications:

- Oracle has installations of its HCM software managing over 1 million employees in a single instance of the software. This is achievable because the application leverages the Oracle database to accommodate any size of customer while enabling scalability for the future.
- Oracle Fusion Middleware is top-ranked because it delivers on customer requirements to integrate outsourced processes back to retained end-customer processes using industry-leading components such as Oracle Identity Management and service oriented architecture. Oracle middleware is standards-based and open so it can work with any retained systems that either a provider or an end-customer may have.
- Oracle HCM applications manage over 50 million people worldwide on a global, web-based, single-system HCM solution that covers every aspect of the HCM road map—from core human resource (HR) transactional functionality through service automation and delivery to complete enterprise talent management solutions.

- Oracle Business Intelligence is the industry-leading dashboard-based delivery mechanism for “actionable metrics” for both providers and end-customers to enable more informed and better decision making.

CONCLUSION: ORACLE CAN HELP YOU TO ACHIEVE BETTER BUSINESS RESULTS FROM YOUR MID-MARKET HRO OFFERING

In today’s current economic climate, businesses of all sizes are looking for ways to streamline operations and cut costs. HRO presents a perfect opportunity to achieve both. The Oracle platform, with support for a true multi-tenancy environment, tools for simplification and reuse, global product reach without customization, technical and application hosting, and a complete technical and application portfolio allows HRO providers an opportunity to offer their customers a comprehensive solution for their HR, payroll, benefits, and talent management needs at the lowest possible cost.



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