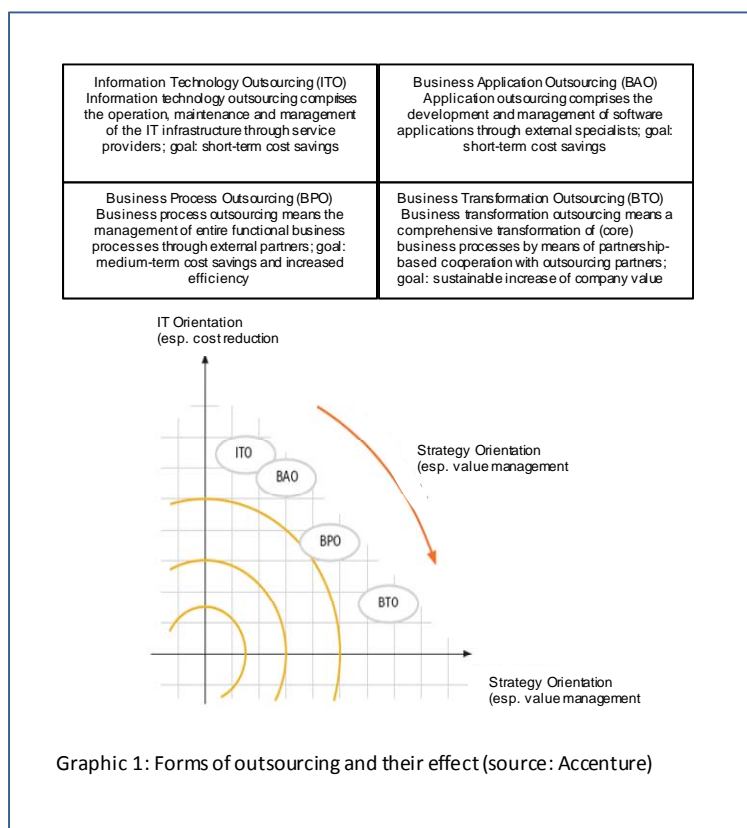


HR Cost Take Out:

## Short-Term Sustainable Cost Reduction by Means of HR Outsourcing Is a Challenge

### 1. HR BPO with Good Judgement

In economically turbulent times, virtually all companies must considerably intensify their current cost cutting programs: Fast and noticeable effects are needed. All functions within the company must do their part, including HR. In the course of this, HR Business Process Outsourcing (HR BPO) is experiencing a renaissance as a panacea for more efficiency.



However, on closer examination, HR BPO is seldom effective in the short term. The experience of Baumgartner & Partner in impartial outsourcing assessments shows that, overall, positive business cases are the exception rather than the rule and that the payback periods of these positive business cases generally last longer than 24 months. Even outsourcing providers such as Accenture only confirm the medium-term cost effect of BPO.

Here, the danger for HR managers lies in taking action too quickly and, as a result, only achieving a presumed cost reduction and tying up valuable resources in elaborate outsourcing projects.

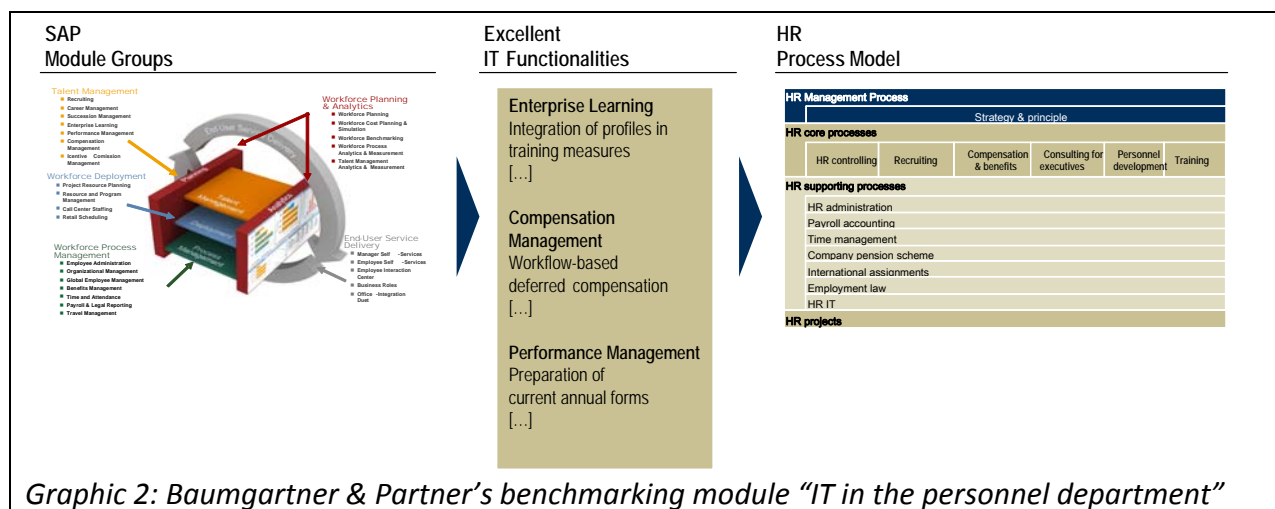
At the same time, if planned properly, HR BPO can also present an opportunity for the HR function in the company. HR BPO “with good judgement” can speed up and boost the transformation of HR from a classic, reactive service organisation to a foresighted, proactive business partner. There is more good news: Well designed HR BPO that leads to a noteworthy cost reduction in the company even in the short term does exist and indeed represents a significant contribution of the HR department toward the company’s efforts to increase efficiency in turbulent times.

## 2. Outsourcing Best Practices through HR Benchmarking Online

With its “HR Benchmarking Online”, Baumgartner & Partner Unternehmensberatung GmbH (Baumgartner) operates the largest benchmarking and best practice database and expert community, covering all aspects of optimisation of personnel services. Among the participants in HR Benchmarking Online are 23 of the 30 DAX-listed companies, approximately 100 additional medium-sized and large enterprises in Germany as well as large international companies. These companies have, among other things, developed best solutions for “HR outsourcing” and “HR IT excellence”. This gives Baumgartner three consulting tools that provide acceleration and safeguarding of results for the challenge of “HR BPO with good judgement”:

### a) Benchmarking of IT in the personnel department

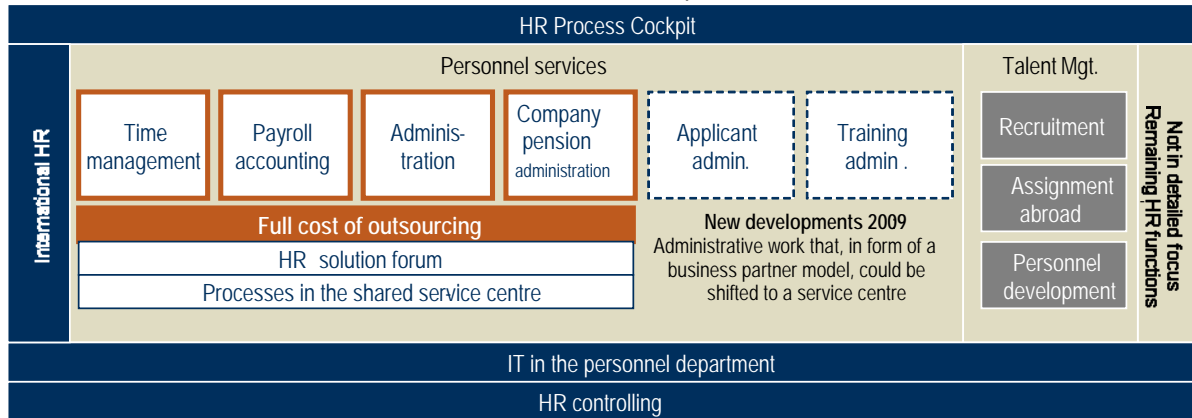
IT is an essential element when HR BPO is being considered. Significant transfer costs are generated here which burden the business case of an HR BPO. Interfaces with the IT systems that remain in the company emerge, and these substantially determine the success of the HR BPO. Baumgartner knows the prevalent system landscapes and “excellent” IT functionalities for supporting HR processes as well as the SAP module groups and investments considered “important” by the leading companies in Germany. This knowledge helps define “sensible” conceptual objectives for outsourcing.



### b) Benchmarking of full cost of outsourcing

On behalf of the benchmarking participants, Baumgartner regularly carries out standardised market price surveys involving leading providers of HR IT, application management and business process outsourcing. This allows companies to obtain initial information from Baumgartner & Partner regarding the cost-effectiveness of HR business process outsourcing in a fast manner and without the need to call for bids.

**2008 benchmarking market price comparison** with current outsourcing prices for standard HR services from the leading outsourcing providers in Germany (ACS, ADP, altro-centric, EDS, GISA, HP, IBM, IT2, KWP, ORGA, Perkura, Siemens, TDS, VRG)

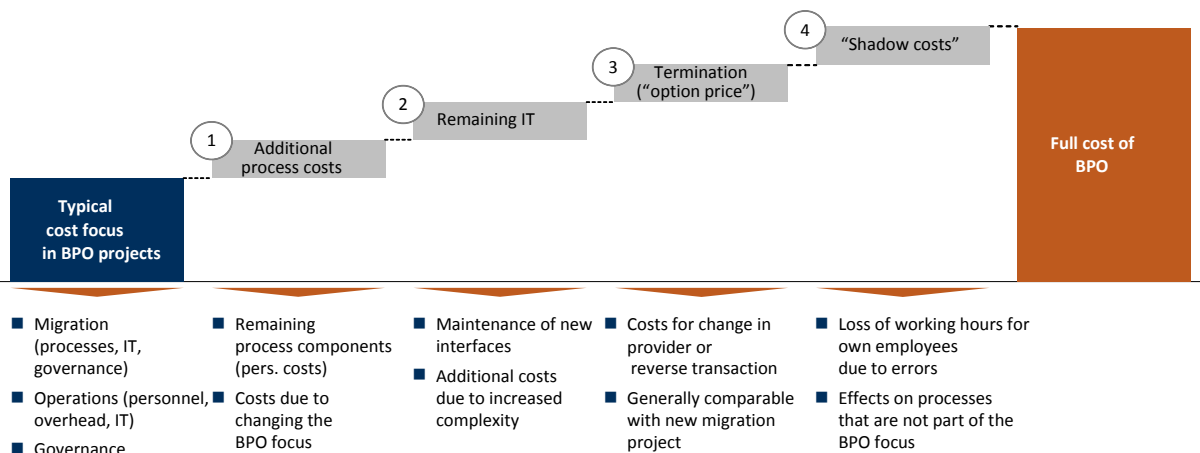


Graphic 3: "Full cost of outsourcing" as benchmarking module of Baumgartner & Partner

c) Full cost methodology

The full cost methodology developed by Baumgartner & Partner, SAP and 9 DAX-listed companies shows which costs remain in a company when services are outsourced. This gives companies a proven template to determine realistic "residual" costs in different outsourcing scenarios. These determine the business case and the economic success of a HR BPO to a major extent.

**BPO full cost methodology**, developed in collaboration with SAP AG and 9 DAX-listed companies



Graphic 4: Outsourcing full cost methodology of Baumgartner & Partner

### **3. Alternatives to HR BPO for “HR Cost Take Out”**

Baumgartner describes its management consulting expertise in HR outsourcing as “cost take out” consulting. The outsourcing goals are always evaluated in comparison with alternatives that do not employ outsourcing. This means that the evaluation consists not only of different outsourcing scenarios but also always includes a comparison with scenario 0 (forward projection of the current situation) and scenario “0 opt.”, which represents an optimised scenario without outsourcing. This approach arose from the knowledge gained in recent years that HR BPO business cases did not always deliver a reliable short-term cost reduction solution but that an internal optimisation carried out with full force (under outsourcing pressure) makes more reliable and faster results possible.

### **4. Neutral Partnering with Outsourcing Providers**

As a result of the outsourcing market price comparison described in 2b), Baumgartner has a unique and neutral partnership-based relationship with nearly all leading providers of outsourcing in Germany. Consequently, Baumgartner & Partner know the possibilities and opportunities the collaboration with different outsourcing providers can bring. For a company that is engaged in concrete “cost take out” deliberations, this knowledge is a project accelerator: Concrete, current solutions offered by the providers can be incorporated into the deliberations about the “right” outsourcing scenario.

*Example:* If the goal is a short-term “cost take out”, the initial costs of the outsourcing, which in part significantly affect the payback period, can be financed with the help of the provider. Outsourcing providers frequently offer these financing options as market entry or market intensification program to reach strategic growth targets. Due to the knowledge of the respective current market situation and the strategic goals of outsourcing providers, better results can be achieved.

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