

Consolidating Climate



The economy may unleash a swirl of consolidations that could possibly have a far-reaching impact on the best-known industry players.

Some consolidation of provider capacity has been in the offing for awhile. We have seen write-offs by major providers across numerous financial reporting periods. Operating losses and red ink have been reported by Hewitt, Convergys and ACS, in varying sums. There is some hope that, in the existing provider community, the worst is over.

The second phenomenon seen this year has been the consolidation of three smaller service organizations through the acquisition of EDS by Hewlett-Packard. H-P completed its purchase of the Plano, Texas-based business technology service provider during November 2008, and that has led to some confusion and questions about how three different brands and approaches to BPO and HRO will be consolidated.

The history of the three approaches to the marketplace can be summarized as follows:

- The earliest HRO project in what is now the H-P family of companies is the agreement signed between EDS and CIBC (former Canadian Imperial Bank of Canada) in 2004. This was a major transaction in 2004 and involved a transfer of people and services from the bank to EDS. EDS then provided services through a Toronto center.

- The second major foray into the HRO market was led after the creation of Excellerate HRO, a joint venture between EDS and Towers Perrin. In spite of the involvement of EDS in this venture, the CIBC business already held by EDS was not contributed to or consolidated with Excellerate HRO.

- H-P built up an outsourcing business around payroll, IT and HRIT over the period from 2002 through 2007. H-P agreed to take on more HRO services for a client in 2008, and that transaction is still getting under way.

So far, there is little overlap in approach and an unclear strategic vision for how these three businesses will be put together. This is not necessarily because H-P does not have a plan to consolidate, but, more likely, because each of the HRO clients has a different service agreement, plus there are numerous other significant consolidation issues in the H-P and EDS merger. H-P's strategy became cloudier with the announcement of Chris Rittenmeyer's retirement in early December, the executive widely expected to run the business.

Excellerate HRO has developed largely along the lines of benefits administration, with only one comprehensive HRO client to date. EDS with CIBC also has only one comprehensive HRO client. And H-P does not yet have a mature delivery profile for comprehensive HRO. Taken together, three large contracts may give H-P critical mass, but it is not clear which delivery strategy will dominate.

The future direction and competitive strategy for the three companies is not readily apparent, either. Significant cost pressures and a downturn in IT spending has led H-P to approach the comprehensive HRO market with caution. Given the times, we should also expect a consolidated delivery model.

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