
OUTSOURCING YOUR SAP ERP HCM SYSTEM

**Understand Benefits and Risks of Your Decision and
Get Tips for Managing the Transition**

In This Session ...

- **Explore the benefits and risks of outsourcing your SAP ERP HCM system**
- **See how important it is to agree about strategic objectives and how to make sure they are really relevant**
- **Discuss various design options and look at interface processes between your organisation, the provider, and, possibly, third parties**
- **Demonstrate how you build on this foundation to create a best-in-class Request for Proposal (RFP) and how you use this as a starting point to guide you through the decision making and provider selection process**
- **Touch on typical change management pitfalls in HR outsourcing projects and learn how to avoid them**

What We'll Cover ...

- Understanding the economics and risks of outsourcing
- Making the first decision: Scope and interfaces
- Defining the requirements: It's *your* RFP
- Managing the selection process: Ask the right questions
- Managing the transformation: Preparation pays off now
- Keeping the big picture in mind: The goal of a long journey
- Wrap-up

2

Mixed Feelings About Outsourcing

"Outsourcing" on Google

- "outsourcing+success": 1.970.000 hits
- "outsourcing+fear": 2.950.000 hits
- "outsourcing+failure": 5.400.000 hits

Common headlines

- "61% Americans **fear** job loss due to outsourcing"
- "**Fear** of losing control over compliance inhibits financial outsourcing"
- "IT Outsourcing: Alleviate **Fear** of Dependence"
- "Outsourcing Buyers **Fear** Lack of Flexibility"

However surveys usually report successful outsourcing projects

- Provider surveys are very positive
- Surveys from independent advisors and academia are somewhat positive

3

The Economics from the Provider's Point of View

You may expect a provider to be 45% more efficient than you are

- Final cost reduction (e.g., 20%)
- Sales and marketing (e.g., 10%)
- Margin (e.g., 5%)
- Cost of interfaces/governance (e.g., 10%)

Where can this come from?

- Economies of scale
- Standardization and optimized processes

Alternatively a provider can make profits from

- Hidden or unclear cost
- Change requests after the contract has been signed

4

Risks of SAP ERP HCM Outsourcing

- **The relationship with a provider of HR services is long term**
 - Contracts usually run for about five years
 - Circumstances can change considerably during this period
 - Changing the provider is expensive and can be disruptive
- **Cost may be higher than expected due to:**
 - High number of exceptions you haven't accounted for
 - Change requests due to:
 - ▶ **An unclear or patchy definition of requirements**
 - ▶ **Changes of circumstances over time**
 - Higher interface and governance cost
- **Quality may be lower than expected**
- **Internal customers (employees, line managers) don't accept process changes**

5

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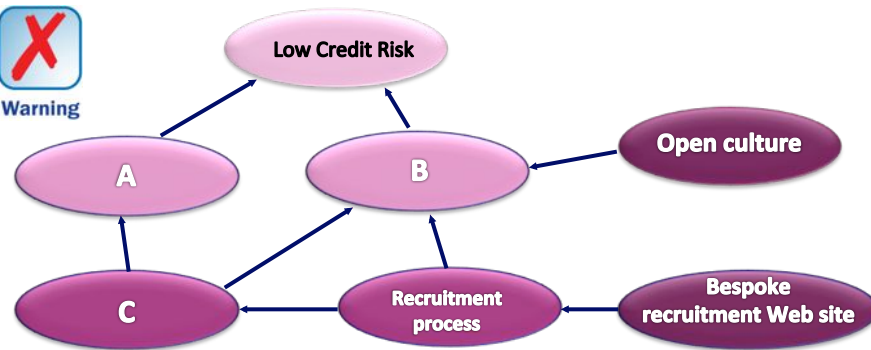
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Five Steps to Make the Right Sourcing Decisions



7

What to Keep Inside



- The real sources of competitive advantage are not always obvious and therefore easily cut out without realizing it
 - You need to follow the chain of cause and effect to get to the real sources: Quite often these are “people stuff”
 - The tool illustrated above is called the “Causal analysis tool”

8

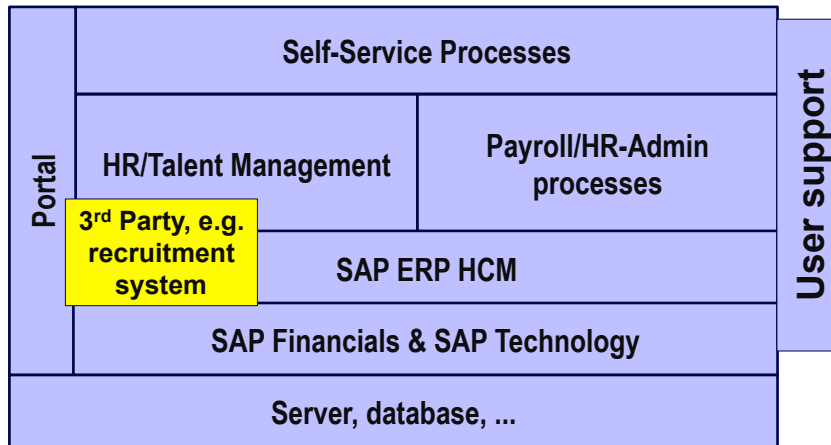
Considerations on Interfaces and Scope

- The operation and configuration of an SAP ERP HCM system is often outsourced, while the HR processes are kept in-house
- If you decide to outsource all your HR processes, then it makes sense to outsource SAP ERP HCM as well
- However, often it's the more administrative HR processes (e.g., payroll) that are outsourced while talent management and planning tasks stay in-house
 - These non-admin processes are increasingly supported by SAP
 - Where to make the cut in this case?
 - ▶ Make the provider responsible for the payroll part of SAP only – difficult to draw the line in system configuration
 - ▶ Usually, it's better to outsource the whole system
 - The high level of integration makes this a difficult relationship
 - Boundaries of responsibility and communication are crucial!



9

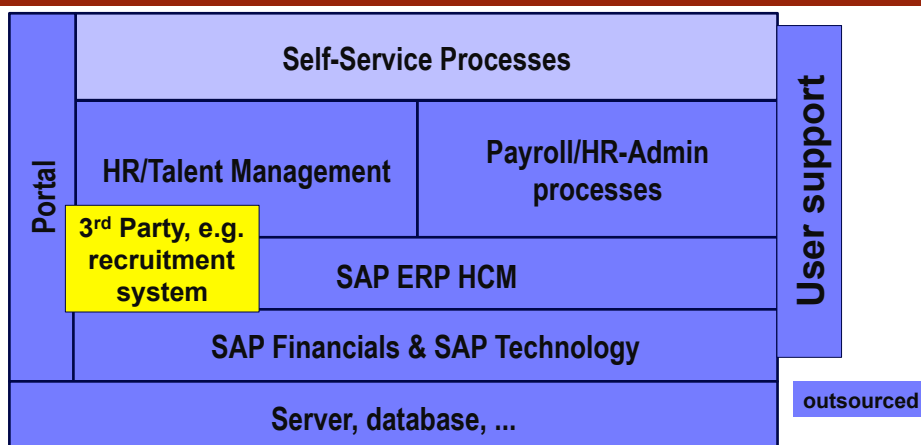
Interface Options: Where You Start



- **Take stock**
 - Which systems and processes are involved
 - Which are outsourced or planned to be?
 - ▶ **Are there new initiatives in other departments?**

10

The Easy Option: Full System and Process Outsourcing



- **From an interface point of view, this is the easiest option**
 - However, which processes to outsource may not be for you to decide
 - Even this can be very tricky, if you have to manage various providers

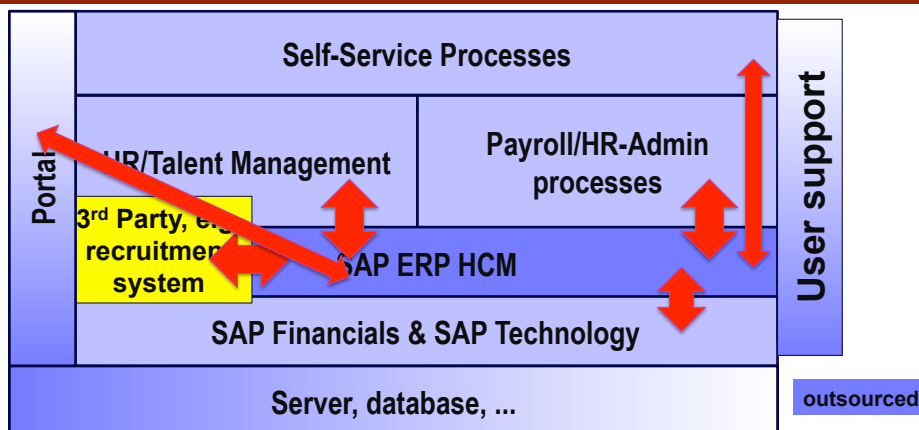
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Considerations on the Full Option

- **Minimise number of providers**
 - Or at least those you have to manage
 - ▶ E.g., provider of outsourced SAP subcontracts for servers
 - Talk to other departments as early as possible
- **User help desk will support more than just SAP**
 - To maintain single point of contact, you may integrate outsourced SAP help desk and route calls through to them
- **Align contract periods to make change easier**
- **Consider international requirements**
 - Payroll and spoken language considerations make it most difficult to get a one-stop shop
 - Other system elements are usually less critical
- **Consider switching from third-party software to SAP-based best practice offered by new provider**

12

SAP ERP HCM Only



- **Looks simple at first sight, however**
 - You create quite a few interfaces with the provider
 - Some systems and processes are shared between HCM and other SAP components

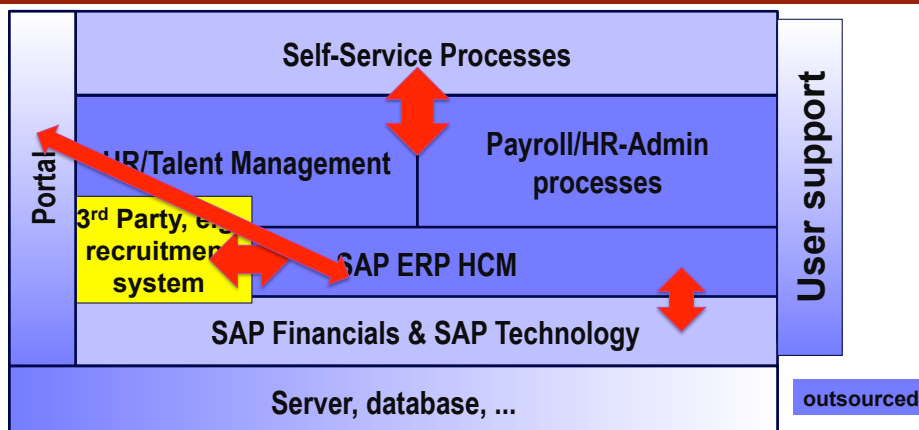
13

Considerations for SAP HCM Only

- **Shared processes and systems**
 - Keeping servers/database and user helpline in-house usually doesn't make sense and creates awkward interfaces
 - Outsourcing them together drives TCO for remaining SAP components up, harming your business case
 - You don't want to run to separate portals
 - ▶ **So, either your Financials system feeds into the provider's portal or the provider's HCM system feeds into your portal**
- **Whilst you are responsible for HR and payroll processes, the provider is responsible for the system**
 - No incentive to look for efficiency holistically
 - There's likely to be finger pointing in case of errors, most notably in payroll
- **Relationship between provider and third party needs to be managed**

14

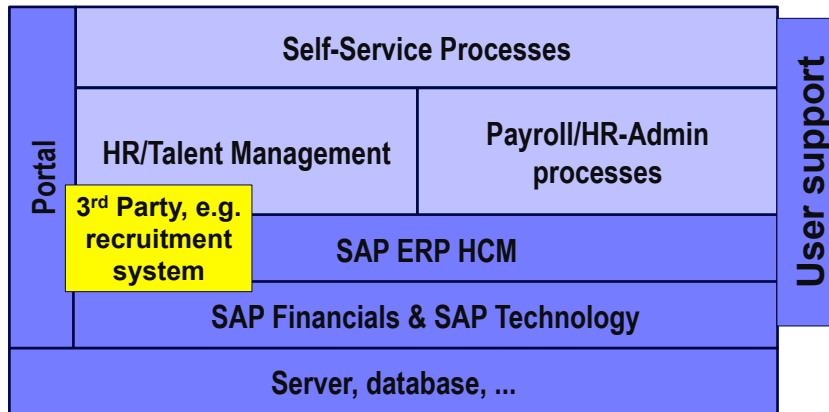
Full HR Outsourcing



- **Clear responsibilities**
 - Provider can use holistic best practice and is responsible for the whole HR outcome
 - Outsourcing the entire HR/talent management process is very rare

15

Full System Outsourcing



- **Minimize technical interfaces**
 - Provider responsible for all SAP-to-SAP interfaces
 - Try to make the third party subcontract to the SAP provider, if it can't be entirely replaced

16

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17

Why Not Use the Providers' Checklists

- Service providers often provide sophisticated checklists asking for all the information they want to write their proposal
- However, there may be crucial gaps
 - These checklists usually don't ask about tasks the respective provider cannot offer
- When relying on them, you miss out on the most important points: The gaps in the provider's service portfolio
- Even if the provider can offer some of the services not on their checklist, you will incur extra cost
- You need to compare proposals from different providers
 - This is possible only when every provider writes their proposal based on the same set of information



Caution

18

Know Yourself!

- To lay the foundation for a sound outsourcing strategy, a good knowledge of your HR activities is paramount
 - Knowledge about HR activities varies widely between different organisations as well as different processes within one organisation
 - ▶ From a detailed, up-to-date process handbook
 - ▶ To a few half-obsolete Microsoft Word documents
 - There are many ways to document this knowledge:
 - ▶ Manuals with text and diagrams
 - ▶ Dedicated knowledge management systems
 - ▶ Business Process Reengineering (BPR) tools
- It is not necessary to have all processes mapped out in detail
 - Usually it's enough to answer "What?" rather than "How?"

19

One Way to Build Your HR Inventory from Scratch

Defining the scope
at the top level

Selecting the relevant
services and functions
for your organisation

- The HR process check – a four-step approach to build your HR inventory based on:

- A reference template
- Existing documentation

Maintaining key figures
and other data

Modeling critical
interface processes only

20

Starting Point

- In our example, we start from an existing template. The procedure is the same no matter what your template is.
 - Bought from the market
 - Brought in by your consultants
 - The documentation you already have in your organisation, which may be a bit out of date
 - Made up from scratch

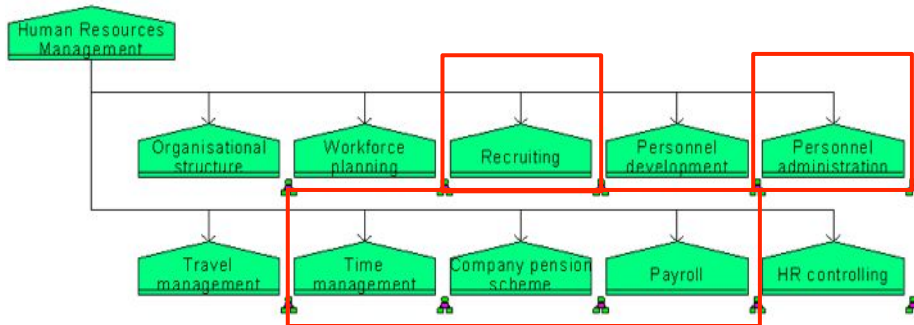


Tip

- ▶ The inventory from an HR text book plus the SAP ERP HCM menu already takes you half way
- The template-based approach is even more valuable, when:
 - You refine your custom template in one country and then reuse it for others
 - Reuse it in many business units within the corporation

21

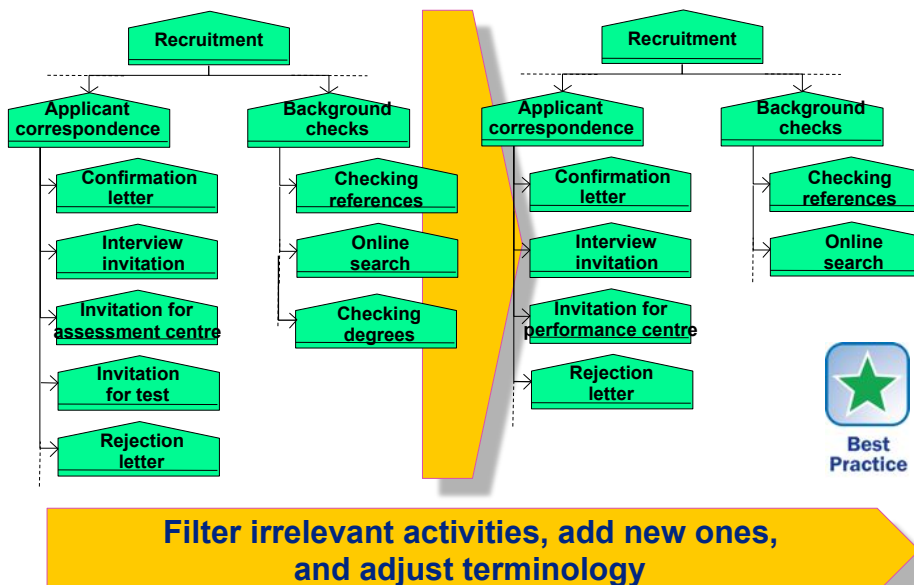
Step 1: Determine Scope of Analysis



- There's no need to analyze the whole HR organisation in detail
 - Focus on areas relevant for outsourcing considerations
- However, make sure that you consider all interdependencies
 - Otherwise you'll risk unpleasant surprises as complex interfaces come up

22

Step 2: From a Template to Your Bespoke Inventory



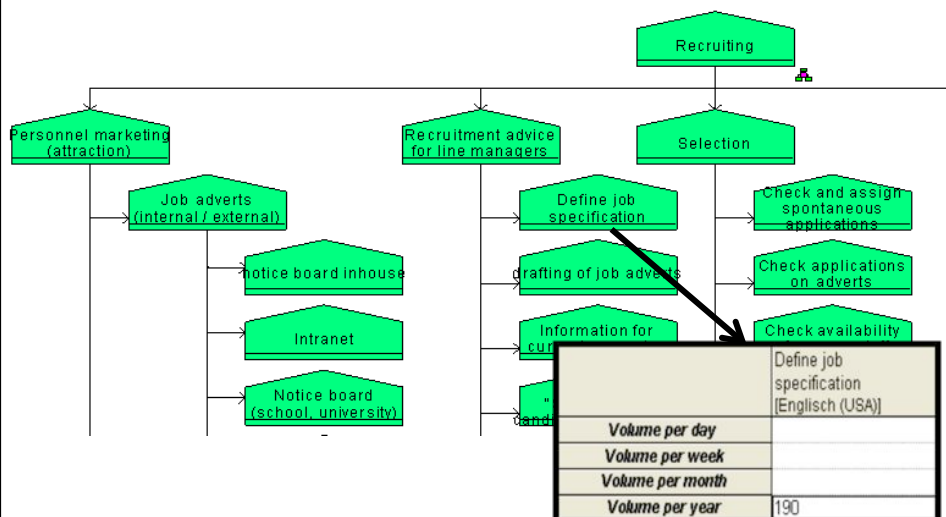
23

Step 3: Add Attributes (Figures and Other Data)

- **Make sure you enter data with a purpose**
 - You can expect to have 500+ activities in your HR organisation
 - Which data do you need for decision making and RFP?
 - The data may be used beyond the decision making and transformation process
 - ▶ To benchmark against past performance
 - ▶ To monitor cost drivers and adjust prices during the relationship
 - ▶ For training purposes
- **Think about which level you need the data on**
 - For the whole organisation
 - Per department
 - Per country ...

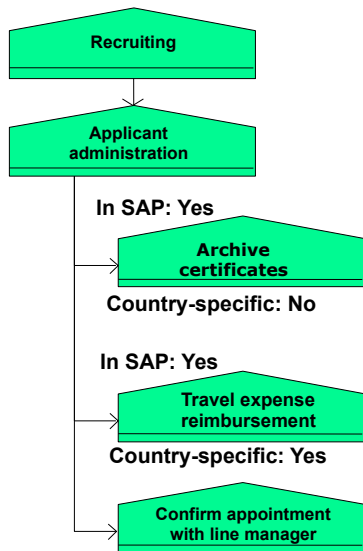
24

Step 3: Example for Attributes



25

Step 3: Display Attributes



Special attributes might be:

- “Time consumed by the process”
- “Number of occurrences of the process per year”
- “Reference to further documents”
- “Process is critical for provider interface”

Can be reported on in most BPR tools

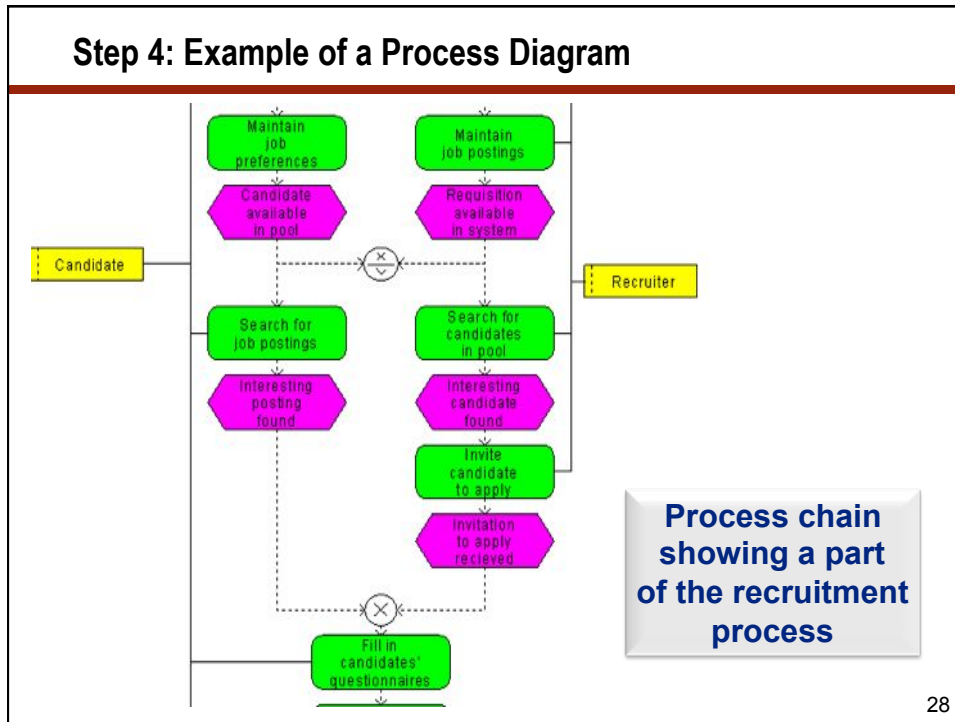
26

Step 4: Map Selected Processes

- **Mapping a process in detail consumes a lot of time**
 - Therefore it is recommended that you restrict this to ...
 - ▶ **Critical processes – usually provider interfaces**
 - ▶ **Processes that have to run in a defined way, even when they are outsourced (e.g., due to regulatory requirements)**
 - ▶ **Whatever you may need for other purposes like user documentation, validation, etc.**
- **Be flexible about your level of detail**
 - It needs to match the questions you want to answer, not a predefined level
- **Look particularly at governance processes:**
 - Change requests, testing, etc.
- **Again: Only invest this effort with a purpose in mind!**

27

Step 4: Example of a Process Diagram



28

Result of the Four-Step Process

Scope of the outsourcing project

- High-level definition in line with strategic objectives

Tasks relevant for outsourcing in detail

- To be translated into the task catalogue for a provider
- Transformed into a table (e.g. Excel), but diagram is always preferable for group discussions

Figures required for cost and benefit estimates

- Information required by provider, but also by your own organisation

Critical processes identified and described

- Potential pitfalls are identified
- Great basis to define provider interfaces in detail

29

Your RFP

- The task catalogue created in these four steps is the core of your Request for Proposals (RFP)
- Other information may comprise:
 - Further key figures not provided through the catalogue
 - Technology context
 - Background information on the organisation
 - Further descriptions of processes, collective and individual agreements, etc.
- The RFP and the proposals submitted in response are large documents. You shouldn't send it to too many providers (usually three or four).
 - Send a brief Request for Information (RFI) to a larger group of providers based on the scope analysis and other major parameters

30

Why Bother? Just Take the System We Have Today

- It is tempting to tell the provider that all they need to do is take the system you already have in place and run it for you
 - You can't expect much efficiencies from this if the provider cannot use their own best practice
 - You never have a clear specification of what the system is supposed to do
 - Unless you have world-class design and documentation, it will be difficult for a provider to run a custom system
 - ▶ And if you have, there is probably no strong case for outsourcing anyway
- In case of high-time pressure, this may be a sensible first step

31

Separate RFPs for Process and System?

What if we outsource the system as well as the process?

- Do one RFP only
- Focus on HR outcomes primarily, without being too prescriptive about the system
- Add system-related constraints as necessary

Does it have to be one provider for both?

- No, but you should not have to manage the relationship between these two providers
- Contract the Human Resource Outsourcing (HRO) provider – they can subcontract others to do the system part

32

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33

The Provider Selection Process



- This high-level process is pretty much standard and common sense
 - However, all too often it is not adhered to, because:
 - ▶ Time pressure forces organisations to cut corners
 - ▶ Buyers drop their intended process and allow the process to be controlled by the providers
 - In most cases, time pressure is self-inflicted by:
 - ▶ Setting unrealistic targets
 - ▶ Procrastinating the decision to start the process, while sticking to the deadline
 - Set yourself a realistic deadline, but not too wide either



Warning 34

Request for Information



- Objective of this stage is to get the providers in the process down to a manageable number
- Ask questions easy to answer and evaluate to make it efficient for both you and the providers
 - You can expect better information in the later stages if providers know they stand a real chance, because they don't compete against 15 others any more
 - Set out your overall objectives and major parameters
 - ▶ This also allows for self-selection
 - Ask about coverage of major processes, countries, and industries, but also other criteria crucial for your organisation (this might be the software platform, SOX certification, ...)

35

Request for Proposals



- The RFP is sent to a small number of providers only
- The core of your RFP is the task catalogue as described in the last section
 - Make it crystal clear that this catalogue is what proposals must refer to
 - Additional information can be given on request
 - ▶ You may even realize some of these requests refer to important data so you send it to all providers, amending the RFP
 - Keeping all proposals comparable to each other is paramount

36

Challenges in an SAP ERP HCM Environment

- The broad range of processes comprised in SAP ERP HCM may lead to a situation where you share the same system with the provider
 - E.g., the provider performs tasks in payroll, benefits, and master data while your HR is still using the system for training and events management, recruiting, succession planning, compensation management, and reporting
 - This requires a very clear definition of tasks, interfaces, and later on, authorizations and roles
 - Ask for references where the provider worked successfully in such a context!
- Check your position on licenses and discuss with the provider and your SAP account manager whether they should be held by you or the provider

37

The Internal Option

- At this stage, the decision for outsourcing may not yet be final
 - Particularly if the reasons for outsourcing are primarily based on financial grounds
- Therefore, proposals from providers are usually compared with the option of keeping SAP ERP HCM inside
 - As the RFP will usually not ask for exactly the same process as it is today, this comparison is not fair
 - Consider the internal team as one of the providers in the bid and ask them to submit a proposal as well
 - ▶ This proposal can and should make use of lower interface and governance cost
 - This way you gain two benefits
 - ▶ Buy-in from IT and HR staff, if you decide to outsource
 - ▶ Better quality of decision making

38

Q&A Sessions



- Your aim must be to get high-quality proposals matching your requirements as closely as possible
 - To help providers to get it right the first time, invite them for a discussion where they can ask questions to clarify elements of the proposal that are not clear to them
 - This is also an opportunity to learn a bit more about them, so you may ask them for a brief presentation of their services
 - ▶ The emphasis is on “brief” – this session is about you, not about them
 - Make sure that important clarifications are available to all bidders
- This process may make you amend the RFP

39

Provider Workshops



- After the providers have sent in their proposals
 - Study them and note all things that need clarification
 - Clarify immediately, where necessary
- Invite providers individually for workshops, comprising:
 - A brief presentation of the company
 - An elaborate presentation of the bid
 - Enough time for your questions
- You are likely to meet at least some providers more than once
- Make sure you get all clarifications in writing
- You should always see customers:
 - Go there without the provider's staff
 - Try to pick them yourself

40

Contract Negotiation



- This is a huge effort, so you'll usually do this with the best only
- How to reduce the price tag
 - Putting pressure on the sales team can get you only so far without risking becoming a neglected customer forever
 - Try to find more intelligent ways of doing things together with the provider. If you do this now, the savings are yours.
- While prices are important, there are more important issues:
 - Terms, tasks, processes, cultural fit, SLAs, etc.
 - With tasks unclear, the provider will be able to offer nearly any price and still make money on change requests
 - Don't compromise on quality. If you can't get to a price level that justifies the change, then it's just not for you.

41

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42

You've Got an Advantage Already

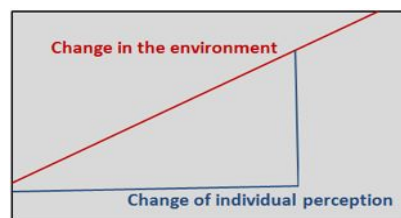
- **Having followed our process, you've already considerably reduced the barriers to change**
 - The clear line of sight between the outsourcing decision and your organisation's strategic objectives makes it a compelling case difficult to argue against
 - ▶ **Even people affected negatively by the decision are more likely to accept it when they understand the big picture**
 - Considering cultural fit with the provider makes clashes between your employees and provider's staff less likely
 - Giving the internal team a fair chance to compete makes it easier for them, and also for the retained staff to accept and support the decision

What's Special About Managing Change in HRO?

- It is often assumed that change is managed in the same way in any project
- While there are many commonalities across all kinds of change projects, there are also a few points bespoke to HRO
 - All employees are affected in some way, but most of them to a small degree, so they don't care as long there's no disaster
 - Project success depends on the victims (people made redundant) to a large extent
 - It's a long process considering the importance of the change for the organisation as a whole
 - While cost reduction is a major driver, savings are modest for the whole organisation, in absolute numbers
 - ▶ Executive sponsors of the project tend to lose interest

44

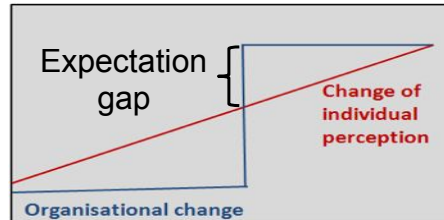
The Decision Maker's Timeline of Change



- For the decision maker, this is the standard process of change:
 - The environment usually changes gradually, e.g.,
 - ▶ Pressure on cost rising
 - ▶ Market in HRO and IT services maturing
 - At some point, the decision maker's perception changes, realizing that outsourcing might be required from a business point of view
- This is not your focus in managing change

45

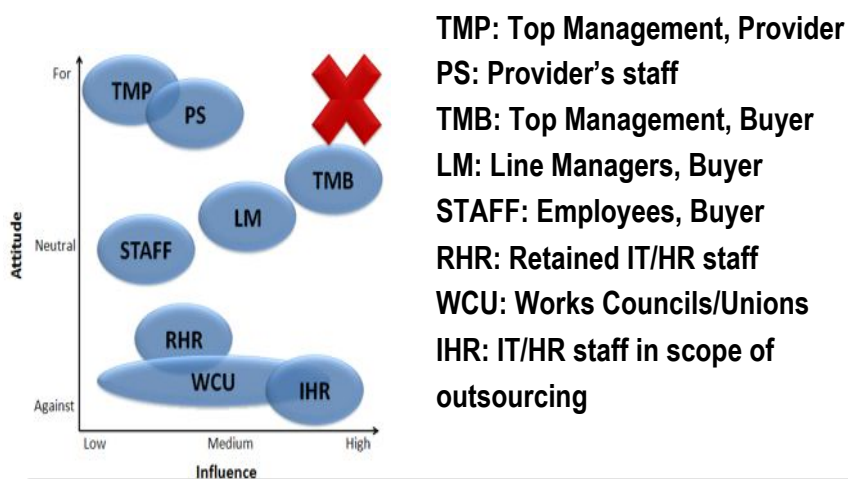
The Majority's Timeline



- The majority of people affected follows a different process:
 - Perception of reality starts changing with the first rumors
 - Awareness of what's going to happen rises throughout the project based on formal and informal communication
 - Still the full reality only becomes clear after the change in the organisation has taken place
 - The expectation gap between perception and reality at cutover can become critical
- Use targeted communication to reduce the expectation gap!

46

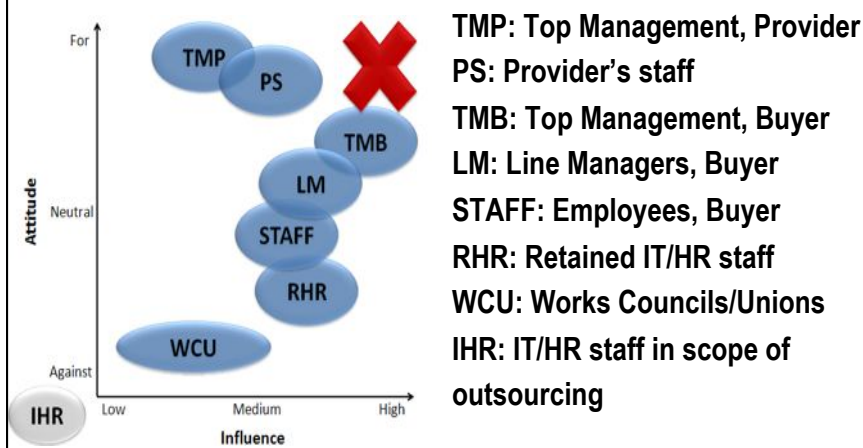
Who Are the Stakeholders?



This stakeholder matrix before the transition already shows one problem: There's usually nobody with high power and a very positive attitude.

47

How Do Stakeholders Change?



Post transition, the HR staff in scope has been made redundant and power has shifted. Line managers and employees are now at risk of acquiring a very negative attitude, if things go wrong.

The System

- Some barriers to change will be around your SAP ERP HCM system
 - Considering the provider needs standardization to keep cost low, you have to expect the following issues:
 - ▶ You'll lose many custom developments and some people will argue that this costs money as investments become obsolete
 - ▶ Of course, this is nonsense, because it's sunk cost
 - There will be less flexibility
 - ▶ It's no longer possible for an HR manager to have a report programmed within 24 hours
 - ▶ ... but this may be just as well
- It is likely that some of these alleged disadvantages are actually benefits as the provider helps you to stick to some standards
- If this was considered when setting the objectives, just stay on track

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50

It's Easy to Lose Focus



**He who doesn't have a goal, will never find
the right wind in his sails**

51

Never Forget

- Some points often seem to get lost during the project
 - You had a strategic purpose when you started the project
 - ▶ “Making it happen” often takes over as an objective. But outsourcing is not an end, but a means.
 - ▶ If FTE reduction is one of the objectives, then the project isn't a success until they are really gone. It's not always nice.
 - ▶ Make sure you have some measurement for quality based objectives. *This includes pre-transformation data to compare.*
 - There's still the internal option
 - ▶ Evaluate their potential on equal terms
 - ▶ If this leads to the decision not to outsource, it's fine
 - ▶ However: Don't let them off the hook to deliver the promised standardizations and savings



Don't
Forget

52

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53

Resources

- Whitepaper “Change Management Challenges in HRO projects”
 - www.iproconhcm.co.uk/papers-research.htm
- The Outsourcing Institute (OI)
 - www.outsourcing.com
- Newsletter including strategic HR, change, and right-sourcing
 - www.iprocon.co.uk/nl
- SAP Business Process Outsourcing page
 - www.sap.com/services/bysubject/bpo/index.epx
- Luc de Brabandere, *The Forgotten Half of Change: Achieving Greater Creativity Through Changes in Perception* (Dearborn Trade Publishing, 2005).

54

7 Key Points to Take Home

- Outsourcing requires a long-term relationship
 - Understand the deal from the provider’s point of view!
- Consider impact of different architectures on interfaces and responsibilities carefully!
- To decide upon the right provider, proposals need to be comparable
 - Filling in the provider’s questionnaires is not good enough
 - You need to define your requirements very clearly
- To benefit from the provider’s expertise, you need to accept some best practice and standardization
- Let the internal team compete on equal terms
- Manage your stakeholders carefully
- Spend time with providers and their clients during the selection process

55