

Success story

Human Resources – how Xchanging made it work

Human Resources services, Enterprise Partnership

The business challenge

Following a major merger the customer needed to integrate and streamline its administrative and support functions. This was done with the aim to provide services more efficiently to a globally dispersed organisation and deliver promised cost savings to investors.

In the re-structure, the challenge for all business areas was to reduce their cost base by 15%. For Human Resources (HR), that meant achieving a £3.75 million cost reduction on annual expenditure of £25 million.

The requirement

HR decision makers within the customers business looked at two options: going it alone, which would call for drastic change and unaffordable IT investment; and conventional outsourcing, which was thought unlikely to yield the necessary cost savings. In order for the HR community to meet the needs of the global business, it would also need to address the fact that its 800 plus HR professionals were spread across over 50 sites worldwide and were using over 20 different IT systems.

Why Xchanging was chosen

To escape this quandary, the customer decided to try something completely different, novel and unproven: an Enterprise Partnership (EP) with Xchanging.

Both Xchanging and the customer had different, yet complementary, objectives: the customer wanted a streamlined HR service, but recognised that investment in a new IT system was essential; Xchanging wanted to create a true partnership that allowed it to re-engineer processes quickly and take the platform to market.

The new model aimed to take the cost base of the customer and turn it into a revenue stream for the newly formed EP.

The solution

In 2001 the partnership was created. Xchanging took operational control of the back-office, and the customer retained board seats, as well as the right to veto the acquisition of any third party business.

The customers' legacy HR personnel had the option of working for the new EP, in a more commercial and entrepreneurial environment. Xchanging focused on communicating the objectives; realigning existing processes to meet customer needs and efficiency targets. Realignment took about six months, during which time Xchanging transferred and trained over 400 of the customers' former employees.

The contractual arrangements included a ten-year service agreement alongside operating and shareholder agreements. Guaranteed target savings were a 10% cost reduction in the first year and a further 5% in the second year. Cost savings and profits from third party business would be split 50/50. This way the customer would gain from any improvement above the guaranteed 15% cost reduction.

Xchanging used its management and Lean Six Sigma process improvement expertise to create a new service mindset: leveraging centralised IT systems, people development, alignment through performance measures and rigorous project management.

A key goal was to move from wholly face-to-face intermediated HR service delivery to HR self service for employees. To support this transformation a new technology portal was created and implemented.

By February 2002, the partnership had achieved 12% savings on baseline HR services. It had also rolled out the new portal to almost 45,000 employees and built a new service centre.

Third party revenue is essential to the commercial basis of an EP through creating economies of scale in both the technology platform and the associated operational processes. Small third party contracts were signed within two years. By 2006, the EP had signed several major contracts, ranging from three to seven years in duration, for HR administration and payroll services. The EP increasingly became a firm in its own right with its own resources, and assumed the desired scale.

In 2007, the customer decided to sell its 50% stake in the EP to Xchanging and the sale was completed in a month. At this stage the EP became a straightforward outsourcing provider to the customer, who extended the ten-year service agreement until 2013.

Both the customer and Xchanging had discussed a potential end to the EP at various points, and this was considered the right moment in time to enable the customer to extract the capital value from its ownership interests.

The benefit

Over the first six years of the EP, the customer realised over £20 million in cost savings and profit share from third party business. Upon completion of the sale of its 50% stake in the EP to Xchanging, the customer realised a further £10 million in capital gains. Over a six year period, a sizable recurring cost base was transformed and leveraged to deliver in excess of £30 million of value back to the customer.

When it entered into partnership with the customer, Xchanging had 28 employees. It now has more than 8,000 employees; the EP alone has nearly 500. This is a proof of Xchanging's determination to grow the partnership, not to 'slash & burn'. The EP created a culture of a dynamic and profitable business.

About Xchanging

Xchanging is one of the largest and fastest growing business processors. With a wide range of multinational customers in 42 countries and employing over 8,000 people, we are a truly global company. Our aim is simply to provide business processing services better, cheaper and faster.

Contact us

For further information or to discuss how Xchanging can help, please contact our Group Sales team.

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