

Case Study: CVS's HR BPO Contract With IBM Offers a Lesson in Setting Shared Goals and Mutual Objectives

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This case study details IBM's comprehensive HR BPO contract with CVS Caremark. HR executives and sourcing managers (as well as account executives of HR BPO providers) can learn how to make a partnership successful for both parties.

Key Findings

- IBM discovered the full scope of the deal beyond what had originally been determined within weeks of the contract's initial transition phase.
- IBM and CVS remained committed to making the relationship work for both parties.
- Eventually, a top-down guiding philosophy called "HR Easy" — that internal users should find HR services, literally, "easy" — percolated through the BPO relationship from senior leadership on down, and fostered win-win behaviors.
- IBM has honed its HR deal qualification and precontract due diligence processes with a methodology called "Discovery Lite" that was a result of experiences such as the HR BPO deal with CVS.

Recommendations

- Sourcing managers and internal HR practitioners should identify and scope the internal processes and metrics that must be included in the contract statement of work; in parallel, the vendor's deal pursuit team must perform deep due diligence, including appropriate forecasting of demand loads, prior to signing the contract.
- Set aside funding specifically for contract and vendor management tasks over the life of the contract; budget money for the "care and feeding" of the relationship. This requires directly allocating funds to do so. Buyers of comprehensive HR BPO should earmark 8% to 15% of the total contract value for supplier management. Do this upfront, rather than midstream; otherwise, the enterprise might not achieve the expected cost savings in the deal, or the laws of natural consequences (due to problems that arise) will force you to inevitably obtain the budget anyway.
- Asking the HR BPO provider about its business plans can foster a much-stronger sense of collaboration, so ask from time to time, with respect to the provider's long-range business strategy and how you can help.

WHAT YOU NEED TO KNOW

Large retailers that have a rapid growth model and large, diffused workforce, and are considering HR BPO, can use CVS's experience and build on its lessons learned and relationship success factors when entering into their own outsourcing contracts. BPO providers can also better understand that reaching proper rapprochement can enhance the success — and profitability — of the deal.

CASE STUDY

Introduction

The comprehensive HR BPO market is undergoing a protracted struggle to mature, and the lessons learned by CVS and IBM may offer some perspective on how deals can improve when they are recalibrated around mutual goals and shared objectives. This case study details a comprehensive HR BPO relationship that highlights some of the common experiences across the industry. In this case, both parties were able to bring some common-sense approaches and mutual give-and-take in the relationship to drive to a successful outcome.

The Challenges

Prior to outsourcing, CVS was facing growth-related HR challenges, as it continued to open several hundred new stores each year, as well as engaging in acquisition strategies that brought additional employees into the fold. CVS was faced with the decision to invest enough to support the requisite amount of HR infrastructure and PeopleSoft platform improvements, or continue to focus on other priorities and spending, including critical, high-impact customer-facing processes. Meanwhile, the HR function realized that proper workforce management would require investments that allowed for greater process flexibility and employee self-service, which would need to be partially funded through efficiency gains in automation.

Furthermore, senior management wanted HR to focus on strategic HR initiatives that would motivate employees, like talent management, succession planning, and compensation planning (instead of focusing on noncore tasks such as payroll and benefits administration enrollment or change processes that others might be able to do better and more efficiently). Much of the pressure to rapidly deliver needed HR change was borne by application programmers that couldn't be responsive to the level of business services improvements that were required. Therefore, the option of outsourcing HR processes was agreed to as an appropriate remedy.

CVS was looking for an external provider as a catalyst to bring change in the enterprise — one that had deep HR knowledge and had built lessons learned from a solid track record of existing clients. Combining these HR process requirements together with HR technology change, CVS started to explore whether HR BPO was the right approach.

CVS's guiding principle was not cost reduction; the focus for BPO suppliers had to be on getting the right HR services, technology refresh, and process automation in place. CVS's internal workplace environment and IT topography make CVS's HR processes somewhat unique when compared with other businesses. For example, CVS has more than 200,000 employees, most of whom (such as cashiers, or pharmacy technicians) don't have their own "fixed desk" at which they work. Therefore, driving things like self-service, interactive voice response (IVR) technologies and HR applications that can be securely accessed through the corporate firewall from a home computer were essential parts of supporting employee access, as well as refreshing HR processes through BPO.

The vendors that would ultimately be awarded the contract needed to demonstrate efficiency in these areas through an established track record, especially around upgrading PeopleSoft platforms as a part of prior HR BPO deals. Furthermore, stability of the provider's business — in terms of having a large and stable balance sheet — was also key factor. And finally, the vendor would need to do the PeopleSoft HR platform upgrade on time, and in a phased manner, so that it wouldn't essentially "shut down" all of CVS's other HCM functions at the same time. Meanwhile, CVS continued its corporate acquisition strategy, and would therefore simultaneously need the supplier's help in scaling the full scope of the deal to assist in future HR initiatives to integrate new acquisitions.

Approach

Based on the above objectives, a number of key HR BPO players declined to bid on the deal. Also, many of the initial contenders quickly realized they couldn't handle the scale and volume of CVS employees that they'd need to service, and bowed out. This narrowed CVS's choices in its search for a big HR BPO service provider. CVS also needed a vendor with a large call center capability that could handle that volume and scale of employee demand, together with the creative technology skills that they were looking to apply to the HR processes (both of these elements trumped price in their final selection).

Ultimately, IBM was selected on the basis of its pre-existing relationships with CVS for technologies (for example, point-of-sale systems), and therefore had a stake in increasing its "wallet share" in the account and its commitment to CVS. It was also running the employee self-service applications on the IT side, leading CVS to task it with innovative process delivery approaches as part of the BPO deal, such as using newer touchscreen point of sale (POS) systems as interfaces for "deskless" employee HR self-service access on the retail side of the business.

The contract with IBM was signed in May of 2006 as a 10-year deal, running through 2016. The final scope of the deal included:

- Time and attendance systems and administration
- Recruiting and staffing tool implementation
- Compensation tool implementation
- Performance management/succession planning tool implementation
- Compensation administration
- PeopleSoft and legacy applications support
- Benefits administration
- Payroll, payroll tax
- HR call center and portal
- Workforce analytics
- Employee data and records management
- Leave of absence administration

Results

With the third year of the contract complete, understanding the early challenges faced by both sides will provide greater context to how success was achieved, with lessons learned on both sides.

IBM discovered the full scope of the deal beyond what had originally been determined within weeks of the contract's initial transition phase. For example, call volumes were found to be much higher than the IBM sales team had initially assumed in the business case. The senior relationship management teams spent significant time working to rectify the situation, with give-and-take prevailing on both sides. For example, parts of the scope of work were intentionally set aside and delayed until both parties could revisit them with a fresh approach. IBM and CVS worked together to change the program leadership and made joint investments to change the way the two companies worked together. In essence, the companies re-entered a negotiation phase while working in parallel to continue to deliver services that had already made a transition and to drive transformation efforts.

In early 2007, IBM went live with the HR call center and payroll, yet transformation efforts were falling behind. In late 2007, CVS and IBM made the program leadership and relationship changes, and during that period both decided that benefits administration, performance management and leave of absence processes would be postponed until 2008 through 2010. Both IBM and CVS cite the fresh outlook as a major shift in the cultural fit between both parties that had positive results on the contract terms.

Critical Success Factors

Critical to success was to use of the point of view of the internal end users of HR services as a crucial measure of the deal. To that end, CVS and IBM found significant overlap in what drove both companies from a core-values perspective. Together the leadership and key team members from both companies invoked a philosophy called "HR Easy," in which the employee experience in utilizing the services of the HR department should be, in a word, "easy." The HR Easy concept was based on a philosophy CVS had already been using in the servicing of its customers (a concept called "CVS Easy"). IBM's newly appointed relationship management team bought into the HR Easy concept. Together they agreed that above all, the focus on easy HR experiences from the employees' perspective was of primary importance to the relationship.

As a result, the pace of change in the deal accelerated quickly, which was a key, positive outcome of this new philosophy. To facilitate the needed shift in mind-set, a change management firm was brought in, helping to foster elements such as team bonding between IBM and CVS, and the creation of a joint mission statement. "HR Easy" therefore needed to percolate through the full world view of the IBM-CVS relationship, so that employees should have an easy time calling in to get answers to questions, make it easy to get benefits, easy to make changes to status and other HR-related issues. The mentality of both parties was: "We are in this together for 10 years, so we have to respect each other's business models. With some of trust, we'll do right by each other here." Both parties believe that the pace of change, and decision making would have been much slower without consciously and continually working on the trust element of the relationship.

Although there are still occasional "pot holes in the deal roadway," CVS maintains that when something is amiss, IBM is generally very quick to take the appropriate actions to fix it. IBM states that the lessons learned from its experiences with CVS have resulted in a much-more-robust methodology across all of IBM's HR BPO deal pursuits in the past couple of years. Working at this precontract discovery process (called "Discovery Lite"), brings together, before contract signing, the transition, transformation, and steady-state delivery skills necessary to agree to a more-detailed and documented scope on both sides. Most importantly, this allows both parties to

understand the level of change and the speed at which that change will occur, which balances risk for both parties.

Lessons Learned

Specific lessons learned included the need to accurately manage the learning curve of a global outsourcing deal, especially around communication and management of delivery. CVS also believes that significant amounts of investment in sourcing management for the steady-state, the post-transition part of the deal, are also essential. It recommends having an open dialogue, to set the context of the relationship and alignment of buyer/provider business models, and not to be afraid to share information. This can foster a much-stronger sense of collaboration, so ask about each other's wants and needs — outside of what's in the contract — from time to time with respect to the long-range business strategy and how you can help.

RECOMMENDED READING

"Case Study: Finance and Accounting BPO Improves Cost and Quality of BT's Financial Reporting"

"BT-Accenture Deal Shows the Benefits of Second-Generation Contracts"

"Case Study: WR Hambrecht + Co's Contract With TriNet Is a Midsize-Business HR Outsourcing Success Story"

"How Procter & Gamble Outsourced HR to Sharpen Customer Focus"

"Hype Cycle for Business Process Outsourcing, 2009"

"Magic Quadrant for Comprehensive HR BPO"

"Market Trends: Recession Brings Worry and Opportunity to Worldwide HR BPO Market in 2009 and Beyond"

"User Survey Analysis: HR BPO Market Faces Make-or-Break Hurdles in Global User Adoption, 2008"

"Sourcing Strategy: Deciding Between Outsourcing or Insourcing Business Process Shared Services"

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