

Middle-Market Muddle

I admit I was a few months early predicting that 2004 was the year of the mid market in HRO. But being early does not bother me, because my prediction was right.

By Harry Feinberg

In the December 2003 edition of *HRO Today*, this column forecasted 2004 as the year of the middle market (mid-market HRO is a passion of mine). In 2004, there were several mid-market HRO deals signed—Borden Chemical's deal with Accenture HR Services (originally signed 2003, updated 2004) and ComUnity Lending's PEO deal with GevityHR. Both were sub-5,000-employee contracts for full-service HRO services. I thought for sure that after we made those stories public, there would be a flood of announcements of similar pacts.

As it turns out, I was not wrong. I was just early, by about one year. And, in the magazine business I'd rather be early than late. But the trend was worth the wait. Just look at a small sampling of 10 big mid-market bananas that showed up in my e-mail inbox over the past month:

1. Dietrich Coffee, Inc.'s deal with mid-market provider Savista for HRO and FAO. Savista is to provide services for 56 company-owned stores.

2. Danka Business Systems PLC's 3,100-employee deal with GevityHR. Forty Danka HR professionals will be transferred to Gevity's payroll (the first time for a PEO)—a model taken from the enterprise HR BPOs. Gevity is migrating to a non co-employment model in an effort to serve mid-market clients.

3. Michelin USA's 8,500-employee deal with Aon HRO.

4. Lord Corporation moving from PeopleSoft to HRO provider HR XCEL, a mid-market, end-to-end firm.

5. Shands Jacksonville, a Level I Trauma Center with more than 4,000 employees, outsourced its recruitment processes to TalentTrack.

6. Plus One, a management company for corporate wellness with 850 employees signed on with Checkpoint HR.

7. North American Packaging Corporation, an 1,100 employee manufacturer of industrial plastic packaging, selected Georgia-based PlatformOne.

8. Federal Signal Corporation, a worldwide manufacturer and supplier of industrial equipment, selected Ultimate Software as its HRIS hosting provider. (Ultimate Software also reported four other mid-market hosting deals.)

9. Boise Cascade, a manufacturer of wood and paper products with 10,400 employees selected Sterling Testing

Systems for their background checking program.

10. El Paso BarBQue, operating restaurants throughout the southwest, selected Core3 to provide back office outsourcing services including FAO and HRO.

Although the large-scale, end-to-end enterprise HR BPO providers realize that the mid market represents a huge opportunity, they have not yet been successful in moving downstream. That is because what they are trying to accomplish is to trim down the technology solutions that they utilize for the *Fortune* 500-clients, which do not meet mid-market needs.

There are a few very sophisticated PEOs that have a strong desire to make the transition from the small market and move upstream to the middle market. However, the vast majority of PEOs do not have the ERP systems necessary for a service offering that meets the needs of the mid-market buyer. The vast majority of PEOs simply will not move from the co-employment model to a non co-employment arrangement, which is required to service mid-market firms.

It's those providers who make their roots in the middle market that are filling the mid-market gap. The 10 mid-market HRO providers in the above list are the ones that grew up in the middle market. Joe Vales, a world-class consultant who helps his clients dominate markets, puts it in perspective when he says, "The winners today are those who are close to the market and want to stand up for their customers. Currently, the best solution out there is coming from the specialist service providers, because they know the mid market better." They know high tech and they know high touch—both critical to mid-market customers.

So here is my 20-20 hindsight prediction about the middle market. 2004 was the year of early adopters, but 2005 is the real year of the middle market. Providers feel the demand, and they are gearing up for it. Just wait until 2006. It will be the year of the middle-market spread, or, to use a term all-too-familiar to those in their own middle-market, The Battle of the Bulge. ■



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