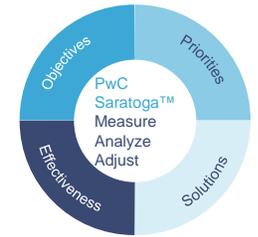


HR sustainable cost reduction

Why focus on HR



On average, direct HR costs account for **28%** of overall operating expenses¹.

PwC has found **15%-25%** of HR operational cost saving opportunities for the majority of our clients, equating to **\$1.5M to \$2.5M** savings for every **\$10M** of direct HR spend.



What additional cost points should you consider?¹

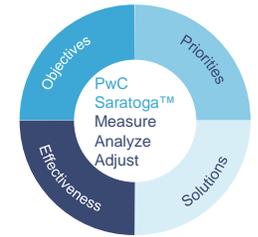
- Does your total HR spend exceed **\$1,600** per employee?
- Does your HR staff spend over **50%** of time on administrative tasks?
- Do HR labor costs per employee served exceed **\$1,000**?
- Is your HR staff to headcount ratio is greater than **1:93**?
- Is your HR revenue percent is greater then **0.5%**
- Has your investment in HR technology fallen below **5%** of annual direct HR costs?

¹PwC Saratoga 2008/2009 US Human Capital Effectiveness Report

HR is an enabler of strategic priorities such as workforce investment, which accounts for over 30% of an organization's revenue¹

HR sustainable cost reduction

Context of today's economic environment



"If you don't know where you are going, you will wind up somewhere else."

Yogi Berra

Some common recessionary misconceptions

1 With a primary focus on survival and cost-reduction, our hands are tied from making major investments right now.

Reality: Priority target improvements should be the focus. In many cases, hard dollar savings opportunities can fund current or future efforts.

2 The business needs to be on board and they have other priorities right now.

Reality: The focus should be establishing clarity on operating cost drivers and other HR spend to more effectively manage the organization's assets, which is consistent with business priorities today.

3 We are struggling to demonstrate the value of HR investment right now.

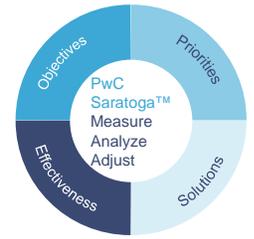
Reality: Through tools such as PwC Saratoga's Total Cost of Ownership and Business Case Cost Calculator, required spending can be linked to expected future gains to illustrate the speed and magnitude of returns on investment.

4 Isn't this just about cutting heads and services? We are already painfully thin.

Reality: There are many potential improvement opportunities that reduce inefficiency and allow HR to spend more time meeting business demands for managing through these economic times.

HR sustainable cost reduction

Driving cost reduction and efficiency through HR



Approach

HR Sustainable Cost Reduction (SCR) is a performance methodology that offers clients the ability to quickly and cost-effectively identify opportunities to reduce spending and drive efficiency throughout the organization.

Benefits and Features

- Leverages PwC tools and templates that are designed for rapid turnaround (2-3 weeks)
- Helps to develop a strategic roadmap for assessing HR and addressing priority improvement areas
- Utilizes a fact-based approach for understanding spending and cost drivers that have the highest potential impact to the organization
- Provides insight into management of pivotal employees to allow for a more systematic approach to staff reduction

HR SCR Components

1. HR labor cost analysis using PwC Saratoga Activity Analysis Survey
2. HR non-labor, systems and third-party spending analysis using PwC data templates
3. Standard performance report with comparisons to Saratoga metrics

Rapid HR SCR Assessment

Internal Costs

Labor

Systems

Non-Labor

External Costs

Supplier Services & Solutions

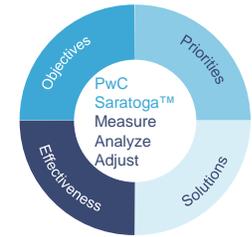
PwC Saratoga Benchmarking

Performance Report

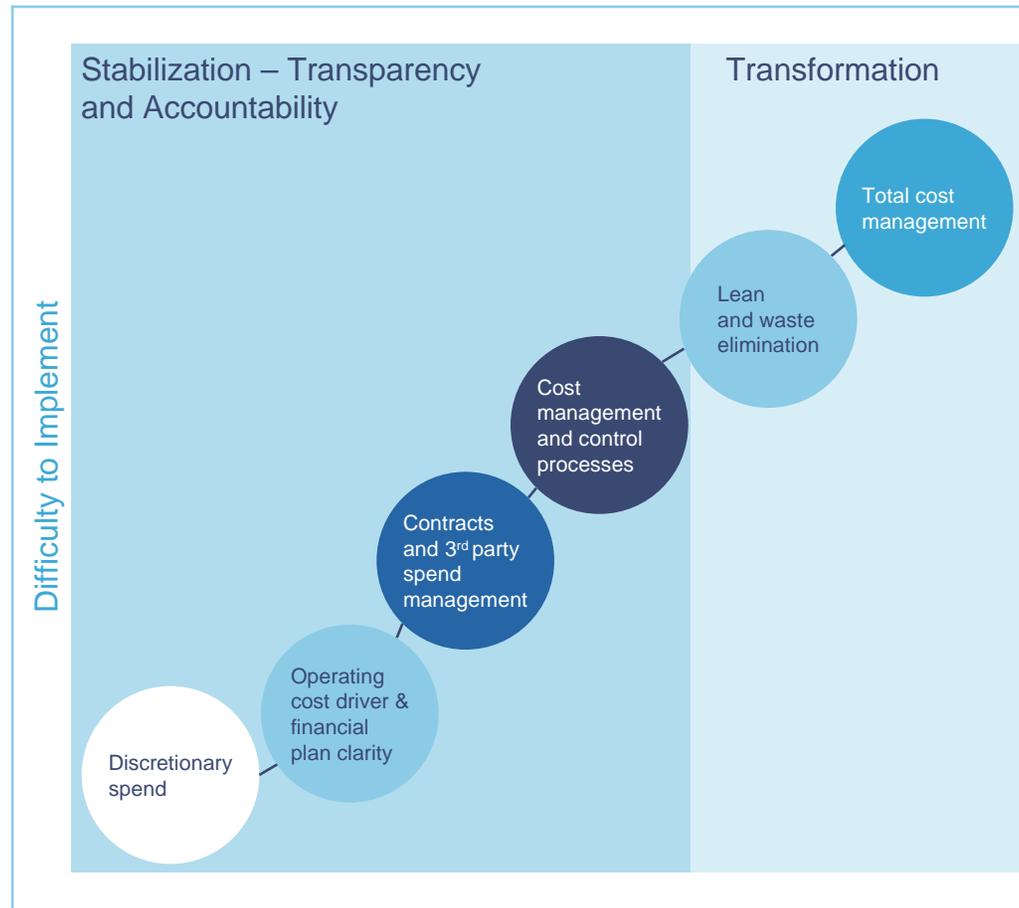
HR Agenda Setting and Prioritization

HR sustainable cost reduction

Driving cost reduction and efficiency through HR



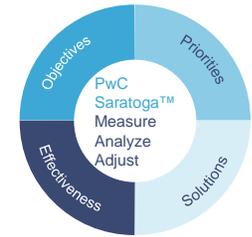
Focusing on cost management, HR can set the stage for, and perhaps self-fund more transformational activities



| | |
|--|--|
| Discretionary spend | Potential cost reduction is relatively small and typically creeps back over time. |
| Operating cost driver and financial plan clarity | Defining cost drivers and linking to operating and financial plans improves transparency and enables better accountability for budget owners. |
| Contracts and 3 rd party spend management | How companies manage contracts and 3 rd party spend goes beyond sound contracting processes. |
| Cost management and control processes | Cost reduction gains are only sustainable if the business improves its cost culture for managing spend (budgets, delegations, management info, etc). |
| Lean and waste elimination | The full potential of simplifying processes and eliminating non-value-added activities can only be realized after a baseline for managing costs is in place. |
| Total cost management | Here, cost is viewed as an investment and optimized across the entire business model with quality management information |

HR sustainable cost reduction

Potential future improvement opportunities



| | |
|-----------------------------|---|
| Operational Efficiency | Ensure HR activities support mission-critical needs of the organization, simplify and automate processes and eliminate non-value added activities |
| Organization and Job Design | Reduce duplication and job fragmentation – focus on type and number of activities, rationalize span of control and coordinate work allocation base on role and/or skill set |
| Consolidation | Develop consistency in programs, policies and processes to achieve economies of scale |
| Technology | Deploy technology to maximize consistency, efficiency and functionality, decommission redundant systems and address limitations and training opportunities |

| | |
|---------------------------|--|
| Outsourcing and Contracts | Verify that supplier capabilities meet business needs, assess service levels and contract terms, reduce spending through contract renegotiation and minimizing non-core supplier services and establish supplier governance structures and protocols |
| Culture | Instill a new “cost management culture” through improved budgeting and management reporting processes and clear delegation of authority |
| Data | Identify and eliminate root causes of data issues, particularly where downstream processes and activities are impacted |

| | | | |
|--------------|-------------------------|----------|--------------|
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