



The 2003 Outsourcing World Summit

Conference & Exposition

Transforming HR – Lessons from the World's Largest Paper and Forest Products Company

Monday, February 24, 2003

Round One - 3:00 – 3:50 PM

Session C

MARK AZZARELLO

Director, Human Resources

INTERNATIONAL PAPER

TREY CAMPBELL

Vice President, North American Sales, Global Marketing

EXULT

Learn:

How International Paper developed and implemented a comprehensive plan – including HR administrative processing outsourcing – that is changing the way the company delivers HR services to its 70,000 US-based employees.

In 1998, International Paper (IP) took a hard look at its HR organization. After a series of large acquisitions, the company found itself with an array of HR systems, wide variations in processes across its operating units, and a cost structure that didn't compare favorably to world-class metrics. As a result, IP embarked upon a transformation plan that continues to this day.

Along the way, IP has implemented a new SAP HR technology platform, harmonized its benefit plans, standardized its HR processes, and centralized its transaction processing into shared service centers. While all of these steps have had a major impact on cost and service performance, late last year IP decided to take the additional step of outsourcing its HR administrative processes to Exult.

CONTINUED



The 2003 Outsourcing World Summit

Conference & Exposition

CONTINUED

Consistent with its plan, IP has built upon this decision to further consolidate its focus on strategic HR matters such as leadership and people development, employee engagement and change management. For its part, Exult has taken over responsibility for HR administrative processing – using its scale economies and high-volume processing expertise to push IP even farther along the cost and service curves.

In this session, International Paper's director of human resources discusses all aspects of his company's HR transformation, including:

- How IP analyzed the key elements of its HR performance
- How the complexities and costs of technology can be evaluated
- How to move HR administration to self-service and web enablement
- How to decide between self-performance and outsourcing
- How to choose the right outsourcing partner



The 2003 Outsourcing World Summit

Conference & Exposition



MARK M. AZZARELLO

Director, Human Resources Operations

INTERNATIONAL PAPER

Mark currently serves as Director, HR Operations where his responsibilities include managing the relationship with Exult, Inc., a business process outsourcer providing an array of HR administrative and transactional services to International Paper employees. Mark is also responsible for the Company's Standardization initiatives; Merger, Acquisition and Divestiture activities; and the Company's HR Transformation initiatives.

Mark began his career with International Paper in 1982 and has served in a number of different HR Business and Staff roles throughout the Company.

Mark graduated from the University of Rhode Island, earning an undergraduate degree in Business and an MBA with a concentration in Human Resources.

Mark lives with his wife, Mary, and their two children, Mark and Laura, in Memphis, TN.



The 2003 Outsourcing World Summit

Conference & Exposition



TREY CAMPBELL

Vice President, North American Sales and Global Marketing
EXULT, INC

In his role as Vice President of North American Sales and Marketing for Exult, Trey focuses on the business pipeline of U.S.-based Global 500 companies as well as overall promotion and shaping of the Exult brand. Previously, he was group vice president of outsourcing services for Spherion Corporation, a company specializing in human capital management, with \$2.5 billion in annual revenues. His responsibilities included global business development for the outsourcing division, whose major clients include Deutsche Bank, Microsoft, Delphi Automotive and UPS.

Prior to Spherion, Trey served as director of strategic sales for PwC's Global BPO practice, overseeing a wide range of global sales initiatives. At Unisys Corporation, he was a principal with responsibility for sales of IT and BPO outsourcing services across North America. His early career included thirteen years at AT&T and Lucent Technologies.

Trey earned his M.B.A in Finance from the Gatton School of Business at the University of Kentucky and graduated with a BS in Marketing from the University of Alabama.

Transforming HR

Lessons from the World's Largest Paper and Forest Products Company



*Outsourcing World Summit
February 2003
Palm Desert, California*

**Mark Azzarello, International Paper
Trey Campbell, Exult**



Agenda

- Background
- HR Vision, Strategy & Maturity
- HR Transformation
- Project Execution
- Exult Outsourcing Relationship
- Lessons Learned
- Questions



Background

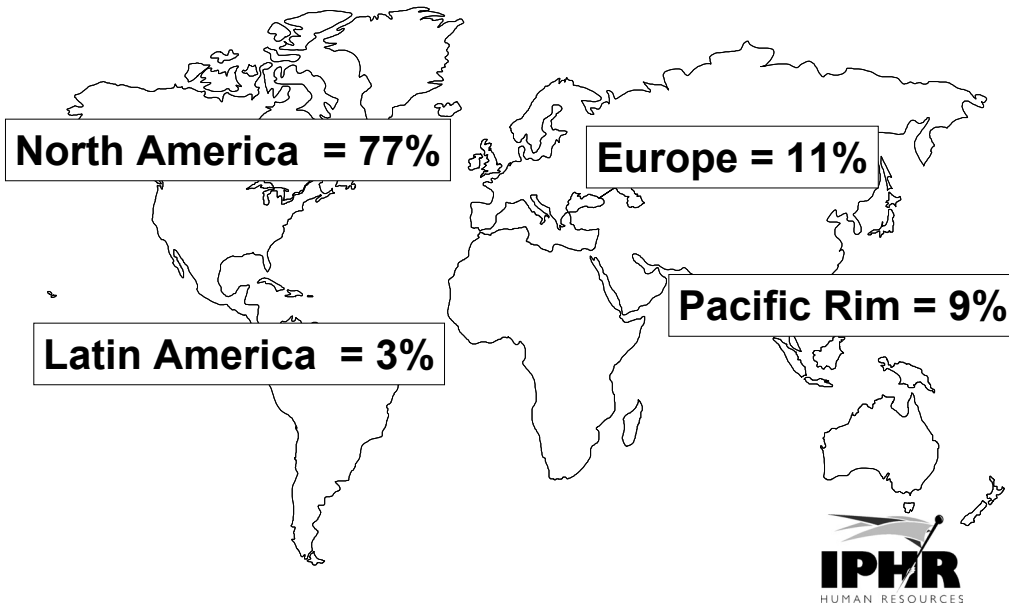


International Paper Profile

- ~ 110,000 Employees
- Operations in 46 US states and over 50 foreign countries
- Customers in 130 countries
- 12 million acres of US forest land



Global Reach



History of International Paper

- Founded in 1898, a merger of 17 paper mills
- Core US mill system built in 1927 - 1937
- Postwar, acquired extensive forestlands, developed packaging business, built more mills
- Diversification 1968 - 1994
- Global growth by acquisition of core businesses,
1986 - \$4.5 billion sales
2002 - \$28 billion sales



HR Vision, Strategy and Maturity



The HR Vision *Core Purpose*

- HR's core purpose is to achieve business goals by:
 - ✓ *Maximizing organizational effectiveness and continuity*
 - ✓ *Attracting and developing business leaders*
 - ✓ *Guiding the organizational values*
 - ✓ *Leading change and innovation to build human capital*



Human Resource Strategy

Strategic Integration Themes and Initiatives

For International Paper

- 1. Develop Leaders*
- 2. Develop People*
- 3. Build Customer Focus Capabilities*
- 4. Enhance Change Management Capabilities*

For Human Resources

- 5. Align HR with Business Needs*
- 6. Enhance HR Capabilities*
- 7. Execute Service Delivery Model*
- 8. Measure HR Performance*



HR Best Practice Trends

- Standardization
- Top Talent – Acquisition & Retention
- Outsourcing
- Self-Service
- Technology

Source: Hackett Benchmarking & Research



Profile of a World-Class HR Organization

Average

- Decentralized administration
- Manual administration support
- Multiple HRIS systems
- Multiple plans, eligibility criteria, etc.
- Limited self-service available
- Limited HRIS functionality leveraged

First-quartile

- Centralized administration
- Simplified, automated administration support
- Single HRIS system
- Standardized plans, eligibility criteria, etc.
- High level of self-service available
- Significant HRIS functionality leveraged

Source: Hackett Benchmarking & Research



Key Strategies – 2003

- Leadership & Talent Development
- Change Management Leadership
- Service Delivery Model Execution
- HR Capability



Human Resources Principles and Service Delivery Model

1:1 Contact w/HR	→	Self-Service
Customization	→	Standardization
Complexity	→	Simplifications
Cost (+)	→	Cost (-)

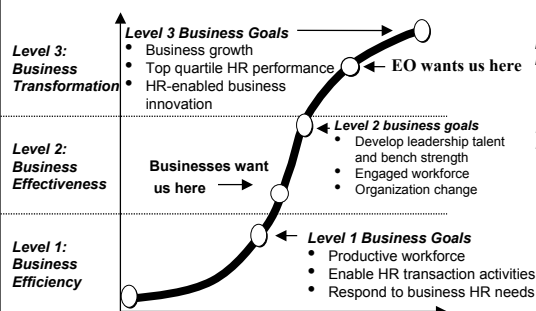
HR Ratios:			
<u>4th Q'tile</u>	<u>Median</u>	<u>1st Q'tile</u>	<u>IP Target</u>
75:1	100:1	133:1	150:1
\$1500	\$1200	\$800	\$950-\$1100

<u>IP '98</u>	<u>PV Goal</u>	<u>IP</u>	<u>2003 Est.</u>
80:1	100:1	<u>Today</u>	130:1
\$1584	\$1200	123:1	\$1147
		\$1171	

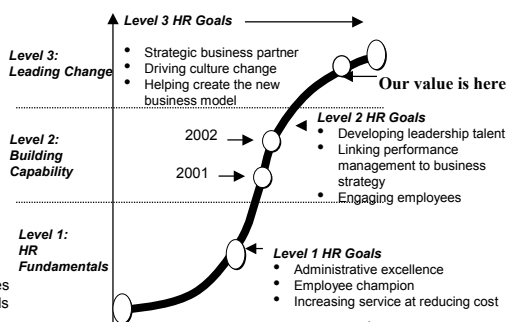


Demand and Supply Maturity Model

Business Demand Model



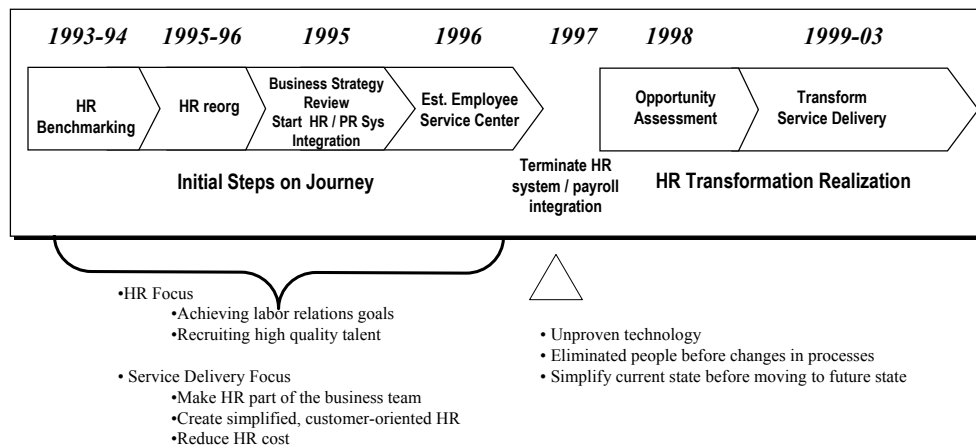
HR Supply Model



HR Transformation



The Transformation Journey



Steps on The Journey

- Transform HR service delivery (1999-2001)
 - HR process redesign
 - Business change integration
 - HR technology deployment
- Concurrently, simplify HR programs
- Assimilate acquisitions and address sourcing model (2002-03)
- Longer-term, transform people strategy



Project Execution



Project Goals

- Transform the quality, reliability and efficiency of HR service delivery
 - Improved customer satisfaction*
 - HR operational excellence*
- Reduce HR cost
- Implement SAP HR/Payroll System



Transformation Enablers

- Policy/process standardization and simplification
- End to end service delivery model and sourcing strategy
- Service organization realignment
- Technologies
 - Portal
 - Data Warehouse
 - Integrated Service Center Technologies



HR Outsourcing



IP VISION

Business Strategy



HR Strategy



HR Service Delivery Model



IP Benefits

IP Needs

Accountability
Cost Control
Avoid Cap Ex
Total Solution
HR/Payroll Data

Continuous Improvement



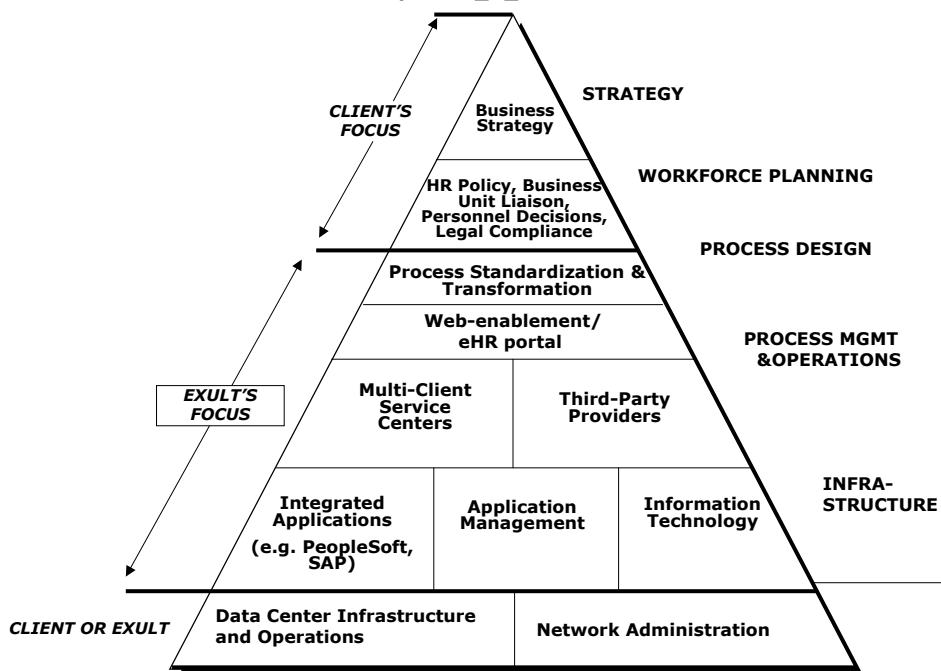
Exult Delivers

Single point of contact
Committed cost reduction
Investment in infrastructure
Integrated services
Accountability for fast, accurate and efficient information

"e-literacy" productivity tools



Exult - Delivery Approach



IP & Exult – Partnering for Value

What IP contributes

- Information
- Participation/collaboration
- Assets
- Employee base
- Demand for services

What Exult contributes

- Capital
- Technology (web enablement)
- Best practice process expertise
- Change leadership
- Operational management

How IP benefits

- Contractually committed service levels
- Predictable, scalable costs
- Reduced investment demands
- Assets moved off books
- Risk reduction
- Reduced effort on HR admin
- Enhanced focus on business

How Exult benefits

- Another blue chip client added to the roster
- Additional service volume resulting in economic gains
- Expanded SAP platform
- New assets - infrastructure, people and processes

**Partnering
For Value**



Key Components

• Acquisition & Operation of the ESC

In Scope Processes

- Payroll Administration
- Benefits Administration/Call Center Management
- EAP Administration
- Drug Testing Administration
- Outplacement Services Administration
- Employee Services Administration
- Relocation
- Employee Data & Records Management

• HRIM Support

• Third Party Administration



Key Components Cont'

- Exult assumed full operational responsibility for activities on 1/1/2002
- Partnership has a 10 year duration
- Exult acquired IP's Memphis ESC
- IP continues with Project Viking
- Exult operates, manages, and invests in HRIM/IT - builds upon Viking investment
- Exult manages 3rd Party Contracts that support in-scope services – Assignment/Management



Lessons Learned



Lessons Learned

- Costs - Know your cost structure going into the process. You need to know if outsourcing is a good deal
- Don't hesitate to ask to be part of the process in developing structure and solutions
- Governance is critical – Not just responsibility
 - *Key Stakeholders* - *Constituents (HR/IT/Comm.)*
 - *Standards* - *Executive Sponsorship*
- Set clear target dates and hold people/teams accountable



Lessons Learned – Cont'

- BPO's don't know everything – while they have tremendous expertise, they are still learning
- Be careful of the "Add-On's"
- "Partnership" vs. "Traditional Outsourcing"
- Stay Engaged – Outsourcing isn't the end, it's the beginning



Lessons Learned – Cont'

Specific to HR Transformation

- Simplify the current state before moving to the future state
- Scope and pre-engineer the total solution-use proven methodologies and integration partners to help manage the complexities
- Reduce headcount after implementation, not before
- Technology cannot solve the HR problem
- Its all about change !!



Questions?

