HUMAN CAPITAL
MANAGEMENT INSTITUTE

Case Study:
Productivity at Bio-Tech

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Background Key Findings

Bio-Tech, a human therapy manufacturer, had grown in recent years through acquisitions, improving its revenue and profit each year despite perceptions of having "plateaued." Facing multiple patent expirations and increasing R&D costs, the new CEO led the firm to change from a position of strength, transforming across the business. This meant reevaluating everything from discovery processes to plant structure and bioreactor materials, through taking new approved therapies to market and patients. Key business goals sustained or improved profitability, shareholder value growth, and pipeline and market share growth in a time of expected headwinds.

Bio-Tech's HR needed a firm understanding of its workforce impact on business results and ways to support new, rigorous organizational design activities, with a focus on increasing workforce productivity and controlling contingent costs. Bio-Tech engaged HCMI for a high level productivity analysis using advanced workforce productivity metrics from HCMI's Human Capital Financial Statements (HCFS) as well as headcount, high level talent, and workforce cost data. Bio-Tech has 16,500 employees and 16,000 contingent workers.

Key Questions

1. How is Bio-Tech's productivity relative to competitors?
2. Where are opportunities to optimize Bio-Tech's workforce investment?
3. Is Bio-Tech effectively managing and controlling human capital costs?
4. Are there talent risks that could impact Bio-Tech's business goals in the coming years?

Process

In order to answer these questions, HCMI conducted a detailed analysis to identify key trends, predictive forecasts, key metrics, and to quantify financial impact of risks.

Analysis Period: The analysis includes Bio-Tech relevant data from 2011 through 2014.

Systems and Data: Data from multiple HR systems was analyzed, such as SAP-Core HR and Performance, Kenexa BrassRing and Fieldglass – Talent Acquisition, and Kronos – Payroll.

Deliverables

- Company productivity results, trends, and comparisons against benchmarks
- "Hot spots" opportunities for productivity and talent management improvements within the business
- A corporate standard methodology for capturing, tracking, and managing all talent investments
- $45-90 Million in actionable ROI savings and value creation from productivity and Total Cost of Workforce (TCOW) management efforts

Q1: How is Bio-Tech's Productivity?

HCMI produced both traditional and advanced workforce productivity metrics and compared Bio-Tech against some key competitors. The traditional productivity metrics (Chart 1.1) showed that Bio-Tech was well ahead of its peers in terms of both Revenue and Profit per FTE.

However, when examining the advanced productivity metrics (Chart 1.2) HCMI found that two of its competitors were actually ahead on both Human Capital ROI, which shows the Revenue-based return on the talent spend (Total Cost of Workforce (TCOW)), and Return on Human Capital Investment, which reveals profitability impact of TCOW.

This confirmed general perceptions that there could be room to improve. Management also needed more information about the controllable workforce costs and how contingent employees factor in.

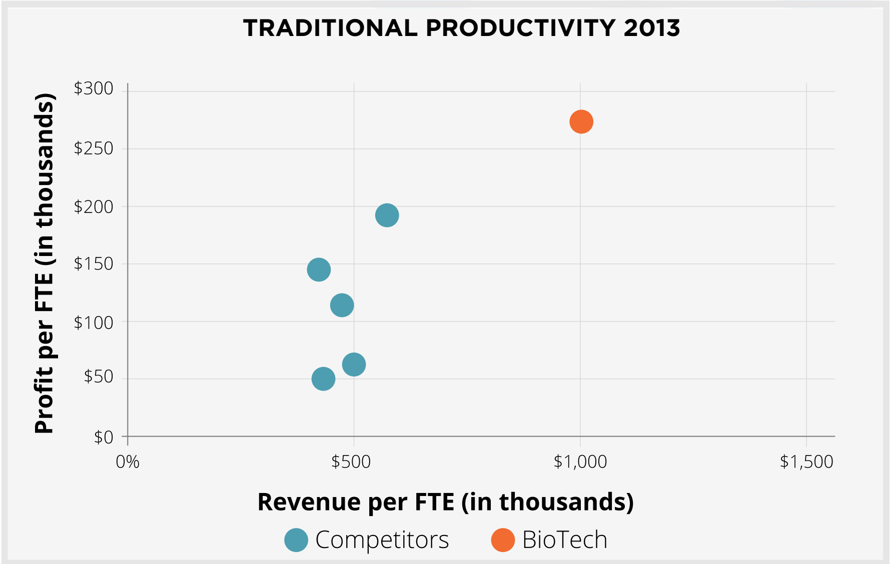

Chart 1.1

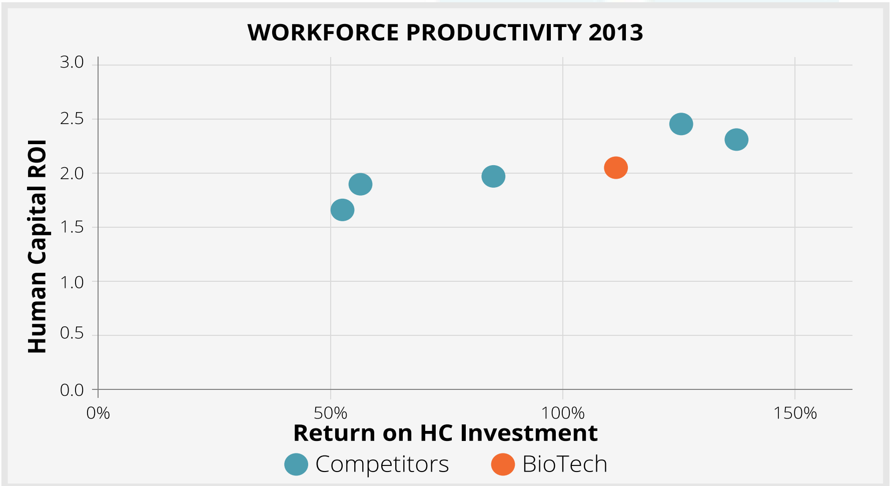

Chart 1.2

Q2: Can the Workforce be Optimized?

Bio-Tech needed to establish its real TCOW, including workforce investments not in the HR budget or in the standard fully loaded labor costs, both to help with organizational redesign activities and to begin accounting more diligently for its contingent workforce.

TCOW had trended in the right direction, with workforce reductions stopping the growth into 2014 (Chart 2.1). However, the use of contingents seemed to be increasing in 2013 and 2014 (Chart 2.2).

The suspicion of contingent growth was understood in terms of counts, but analysis confirmed that contingent costs, which grew over 4% in 2014 and had been growing at about 3.4% (CAGR) since 2011, had offset controls. Further headcount reductions could incur more contingent hiring, and Leadership needed to be held accountable for controlling these costs.

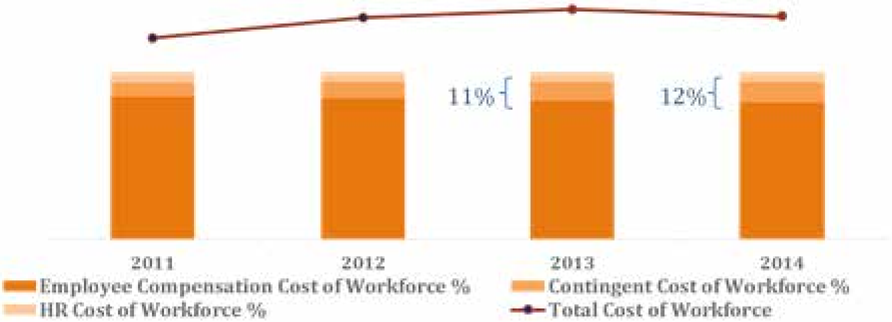

Chart 2.2: Bio-Tech's 2014 annualized workforce costs were pulling back, but contingent % of workforce appeared to be growing at a faster rate than headcount reductions would explain.

Chart 2.1

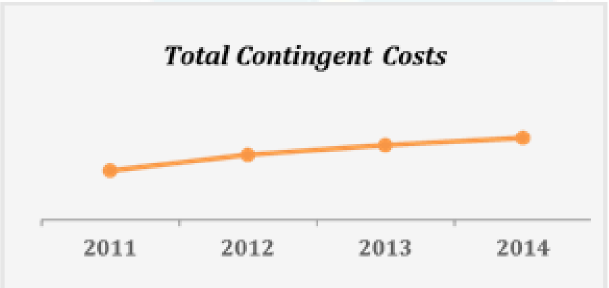

Chart 2.2

Q3: Where are the Opportunities to Improve?

Drilling into the divisional rates of change in TCOW revealed that only two of the four major divisional groups in Bio-Tech were declining year over year, while one larger unit's growth had slowed but still needed further cost control (Chart 3.1). Additionally, Division 1, which needed some growth in a new product line, saw its TCOW growth rate increasing at a time when it should have been rebalancing, or flat. Both units presented opportunities for hiring freezes and surgical cuts to potentially save a few million dollars

Chart 3.1

Q4: What are the Talent Risks in the Forecast?

An examination of costs at different stages of employee careers found more opportunities for cost savings, including a trend that could pose a more significant long term risk. In one core job family, new hires at senior levels were out-earning 10+ year veterans, including high performers, whereas the normal salary trend for the job family was a long –term growth curve. This raised a pay inequity risk among existing employees and also raised concerns about over-inflation in the job family.

Potential hiring volume and pay limits were considered for senior level new hires, as well as an adjustment of hiring requirements to boost pay and responsibilities of lower level employees, which could reduce short term cost increases in Senior level roles and boost the pool for future growth.

Conclusions

Bio-Tech had begun efforts to curtail costs with success, as at least $45 million in savings had been realized through streamlining R&D and overall restructuring efforts. Although this hadn't affected a successful, high level of workforce productivity, HCMI showed the efforts didn't extend to all parts of the business and leading indicators showed some hidden risks to business results. The company could achieve an additional $45-90 Million in additional productivity and cost savings by taking steps to apply TCOW cost controls in the divergent division, and establish an internal talent sourcing strategy for some critical roles. These would give the company the cushion it needs to maintain market cap while navigating some lean years ahead, and come out ready to invest in growth as its new products come through the pipeline.

About Human Capital Management Institute

HCMI (Human Capital Management Institute) is a workforce analytics software and services firm that provides organizations with powerful software, actionable intelligence and deep analytics expertise to deliver better business results through smarter workforce spending. Since our founding in 2008, HCMI continues to lead in human capital analytics capabilities with our SOLVE™ workforce intelligence platform, unique Human Capital Financial Statements HCF$™ and the world's largest workforce productivity benchmark database. Our mission is to enable organizations to leverage their workforce as a source of transformational value creation.

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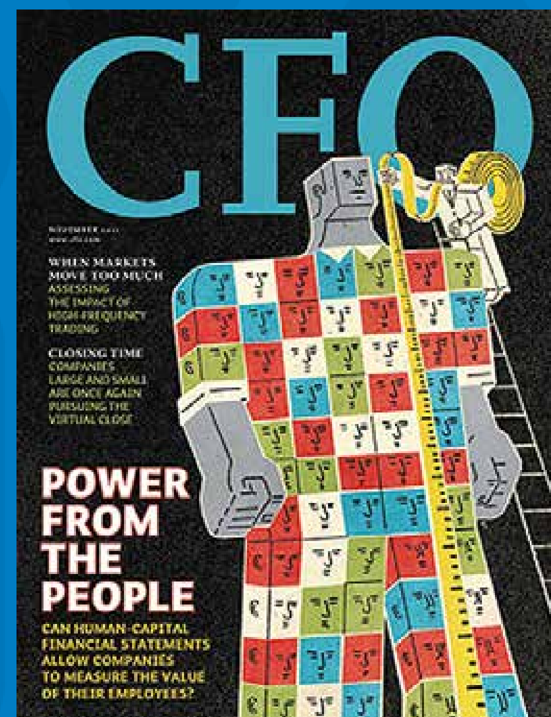

This vision of Human Capital Measurement and Planning was featured on the November 2011 cover of CFO Magazine.