

HARRT *at* **UCLA**

HUMAN RESOURCES ROUND TABLE
Since 1986



THE NEW FACE OF HR:

New Perspectives, New Opportunities

April 29, 2015

TOWERS WATSON 





Leveraging HR Strategy For Competitive Advantage

Are you Ready for What's Next?



***“The best way to predict
your future is to create it.”***

- Peter Drucker

Strategy models articulate competitive advantage for business



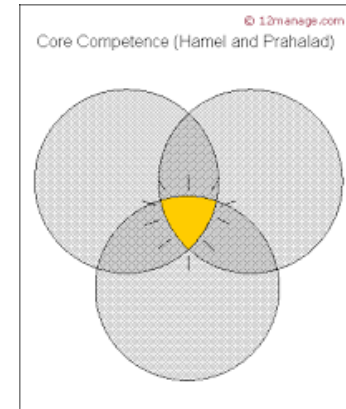
FIVE FORCE MODEL



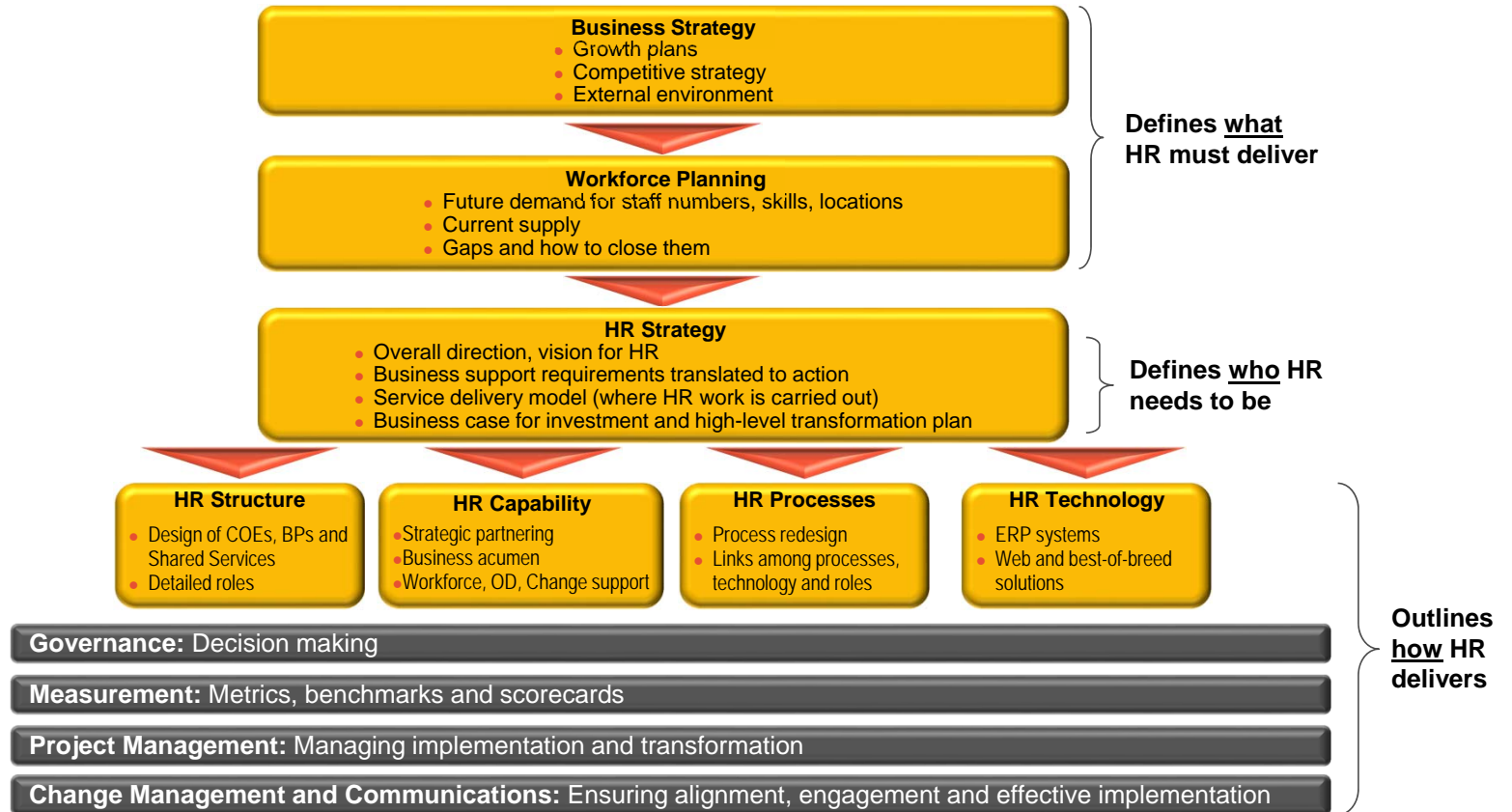
PORTER



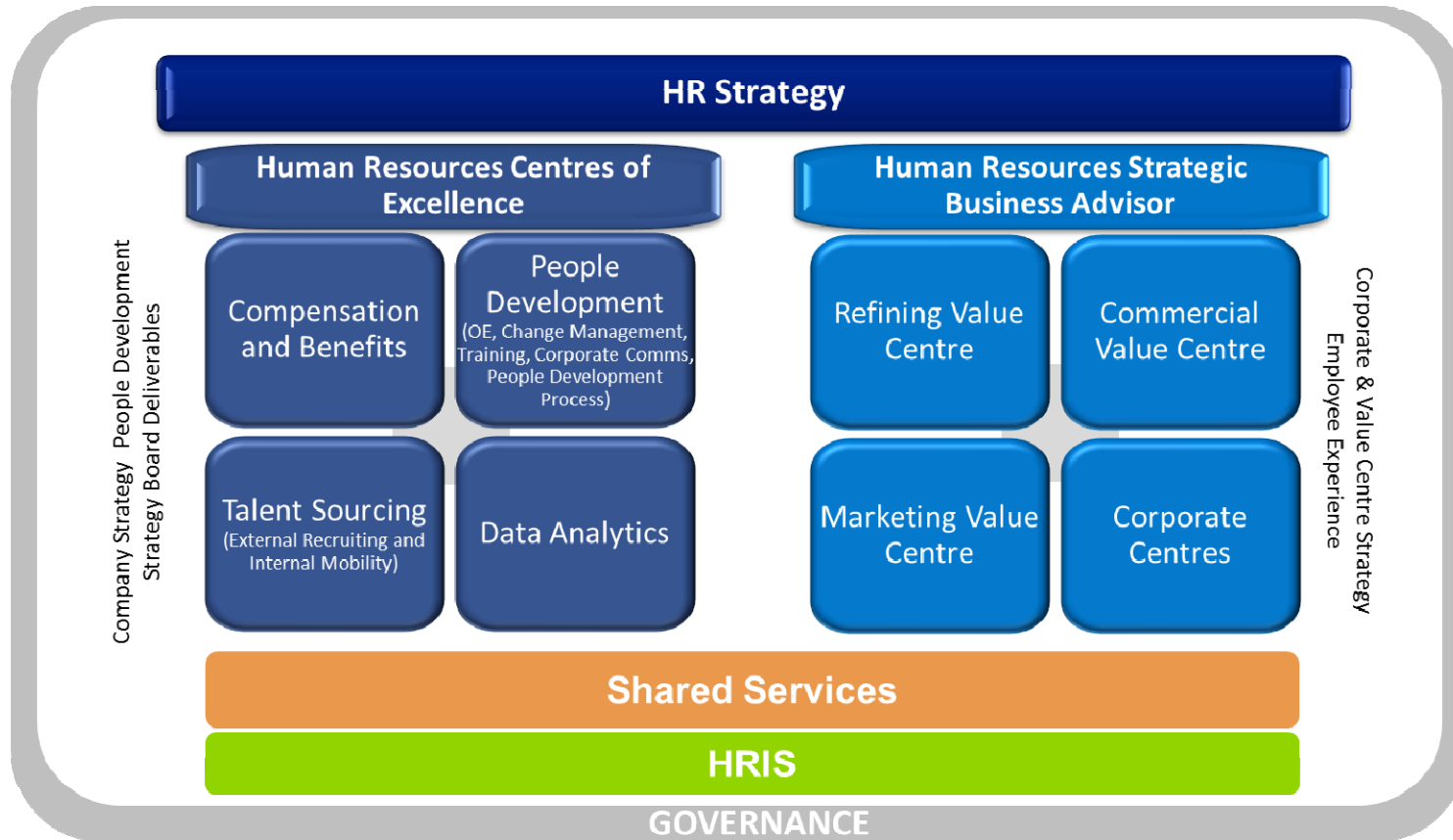
Porter Value Chain Template



...and drive HR strategy



...HR strategy then drives operating models



...but how can HR strategy drive competitive advantage?



First some context: What are CEOs worried about globally?



Do we believe HR can bring us competitive advantage in these?

What is stopping us from executing?

Source: Conference Board Research - 2015

Strategic outlook: Three megatrends impacting HR strategy

1

Pace of Change



2

Talent scarcity



3

Talent globalization



Pace of Change

Fortune 20 (1964)...are any still on the list?



1 - 5



6 - 10



United States Steel Corporation



11 - 15



16 - 20



Pace of Change

Fortune 20 (1964 – 2014)



	1964	1989	2002	2014
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				

Fortune 20 Global (2014)...30% are from the U.S. 12 are new since 2002



1 - 5



6 - 10



11 - 15



BERKSHIRE HATHAWAY INC.



16 - 20



DAIMLER

Talent aspirations have changed



Then



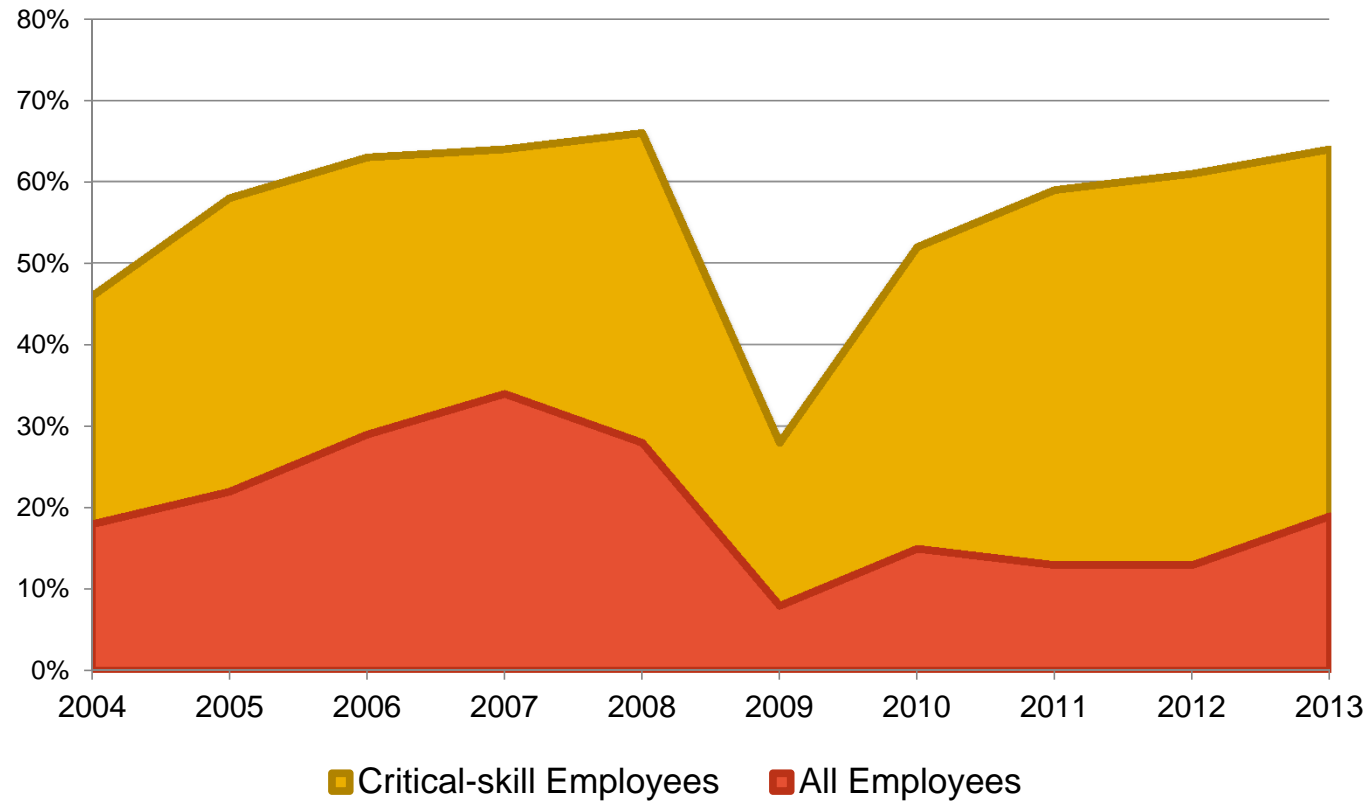
Now



Talent scarcity: *What's going on?*



Percentage of companies that are having difficulty attracting talent



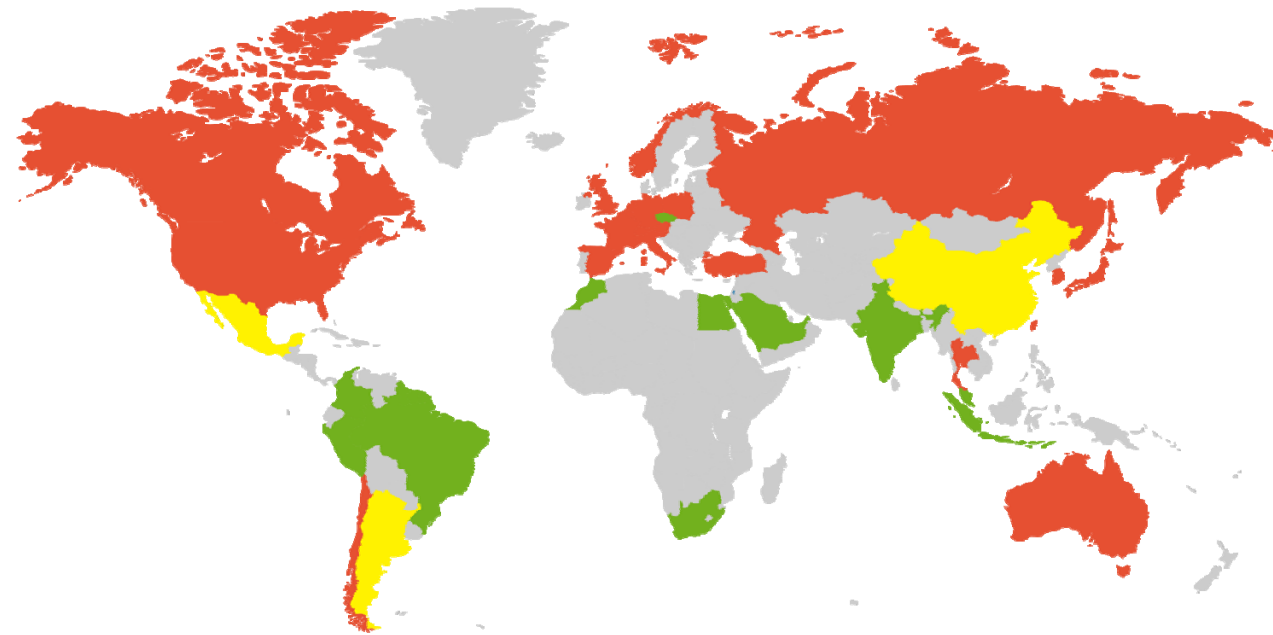
Globalization

Talent in 2021: Not pretty for mature markets



Global talent heat map

The gap between the growth in demand and the growth in supply of talent, 2011 to 2021

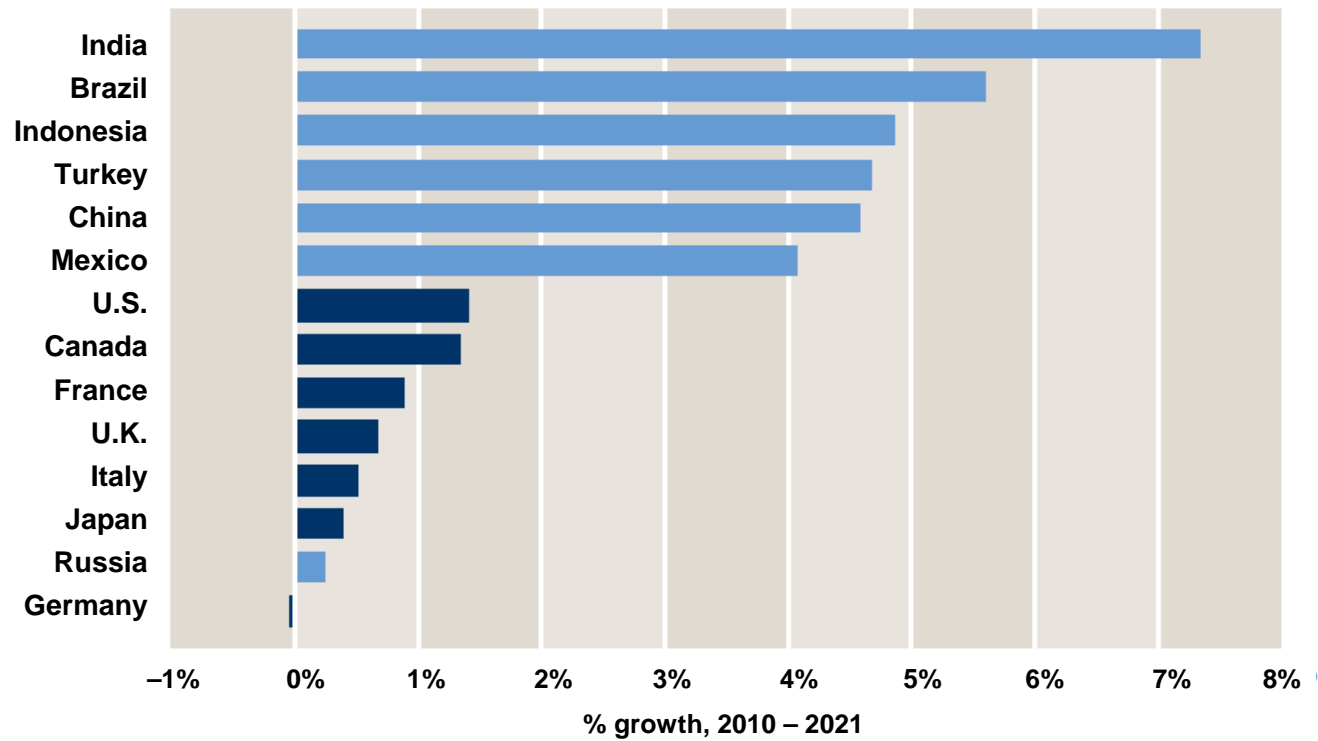


Source: Oxford Economics

Growth in the college-educated talent pool



Tertiary educated (talent): E7 and G7 countries



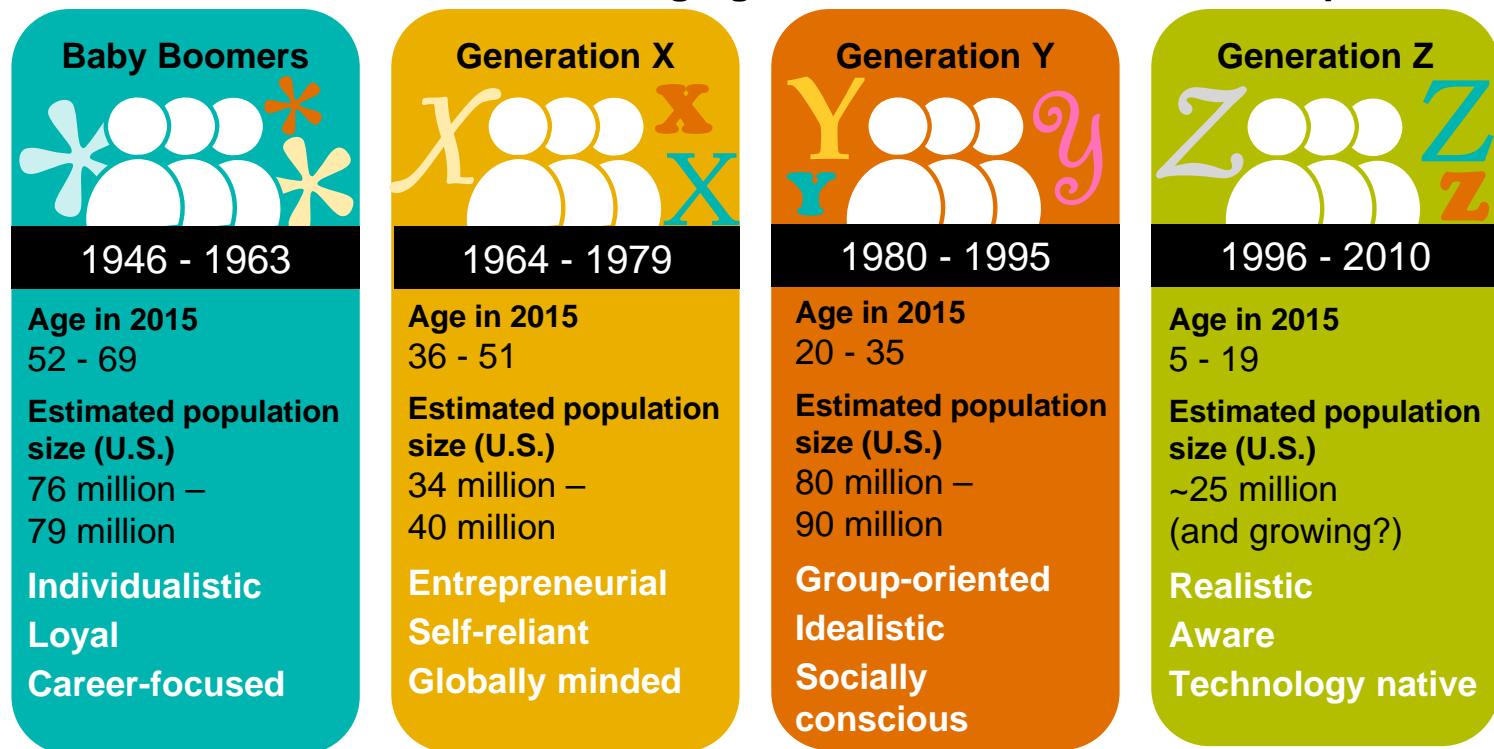
Source: Oxford Economics

Generational demographics drive shifts

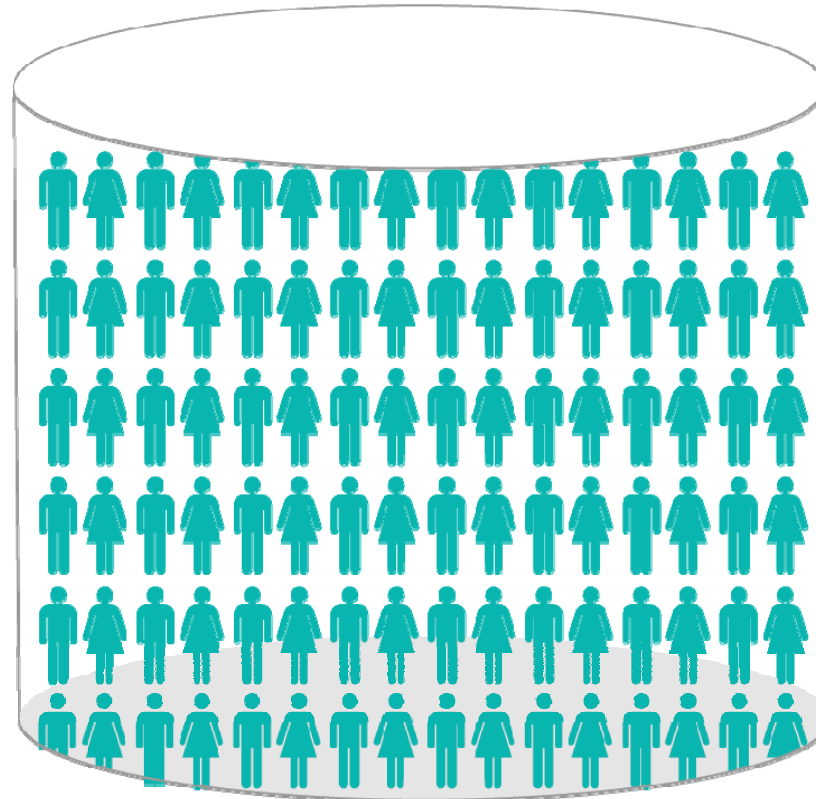


New demographics:

Gen Y has arrived — Gen X are emerging leaders — Gen Z is on the cusp



For decades, the *Fortune* 1000 had little trouble filling jobs with plentiful Baby Boomers



Baby Boomers
(75 million –
79 million)

Key skill groups began to show shortages with Generation X, but longer-career Baby Boomers filled the gap



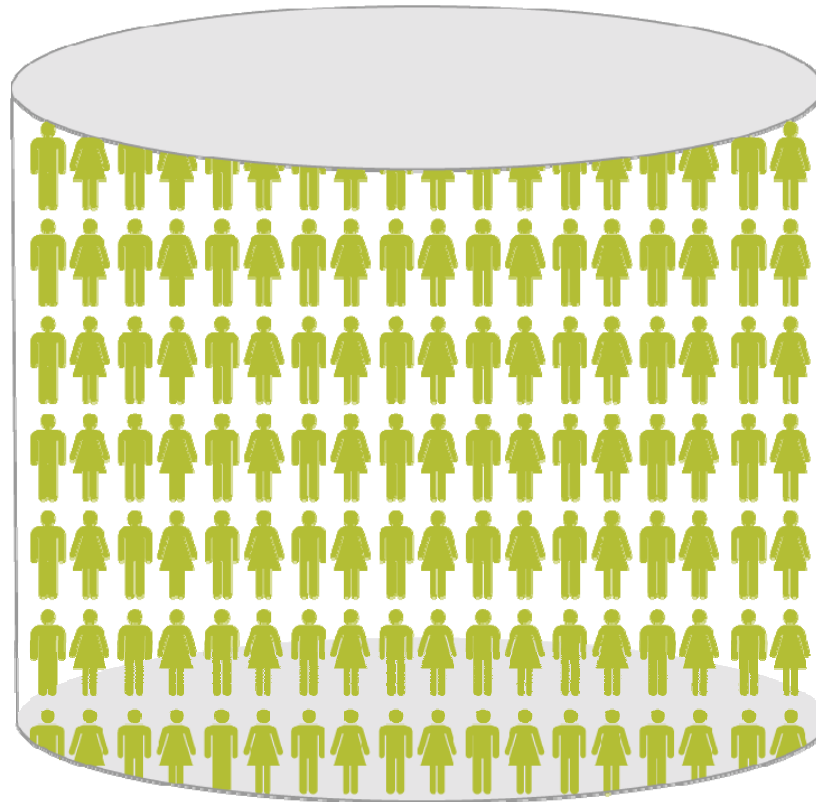
Baby Boomers
(75 million –
79 million)

Generation X
(34 million –
40 million)

**Baby boomers are
retiring at a rate of one
every nine seconds through
2029**

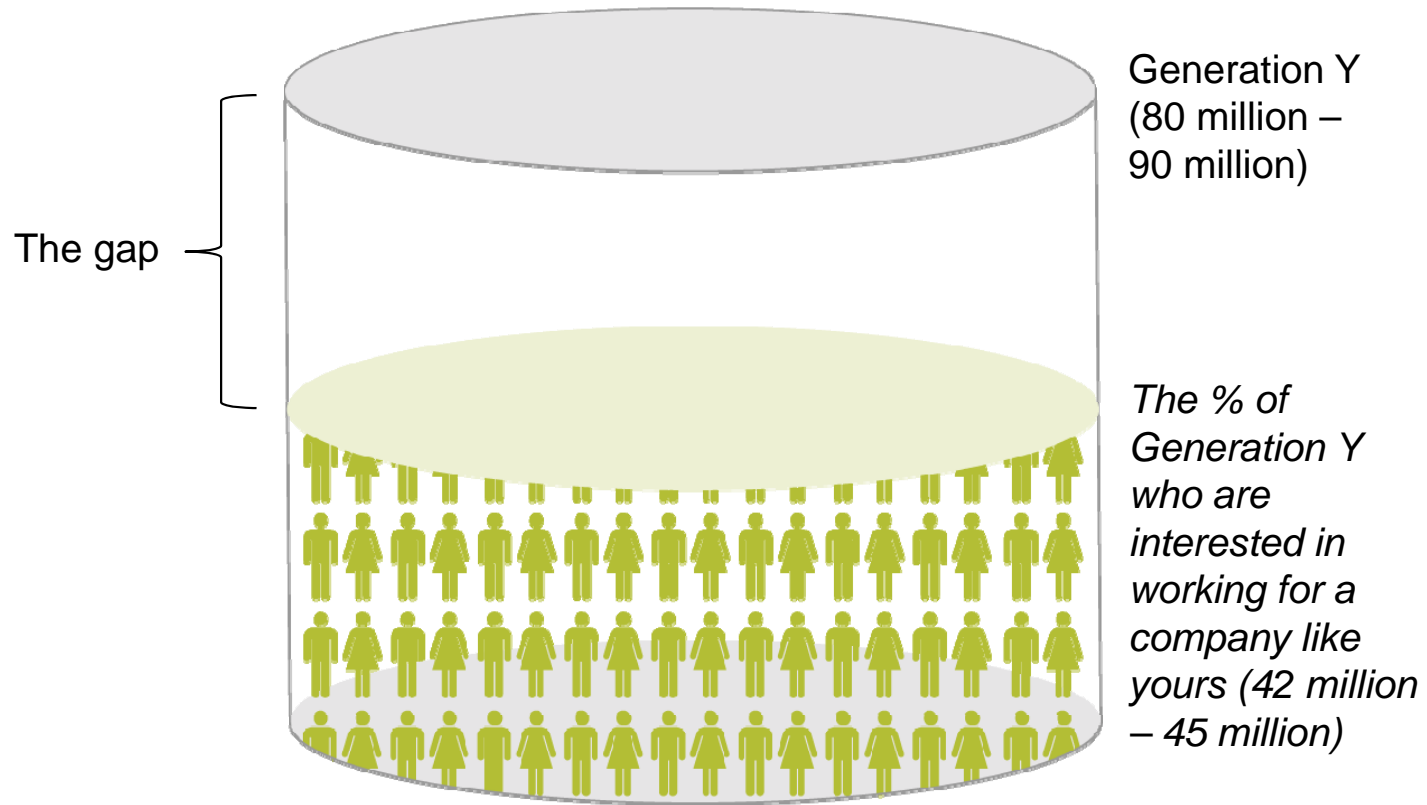
– USA Today Money 8.27.14

Generation Y to the rescue



Generation Y
(80 million –
90 million)

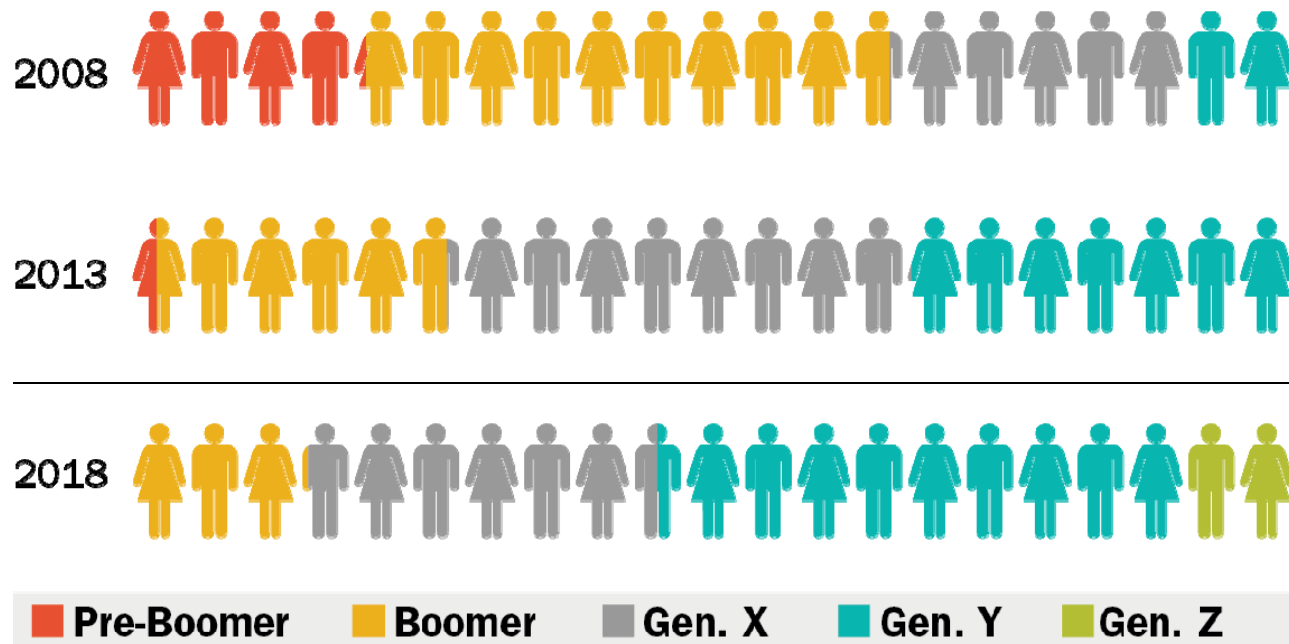
Generation Y to the rescue, but not really



What will 2018 look like for your organization? Illustrative company demographic shift



Global company population — By age



Strategic vision:

How do others characterize the Current State of HR?



Strategic vision:

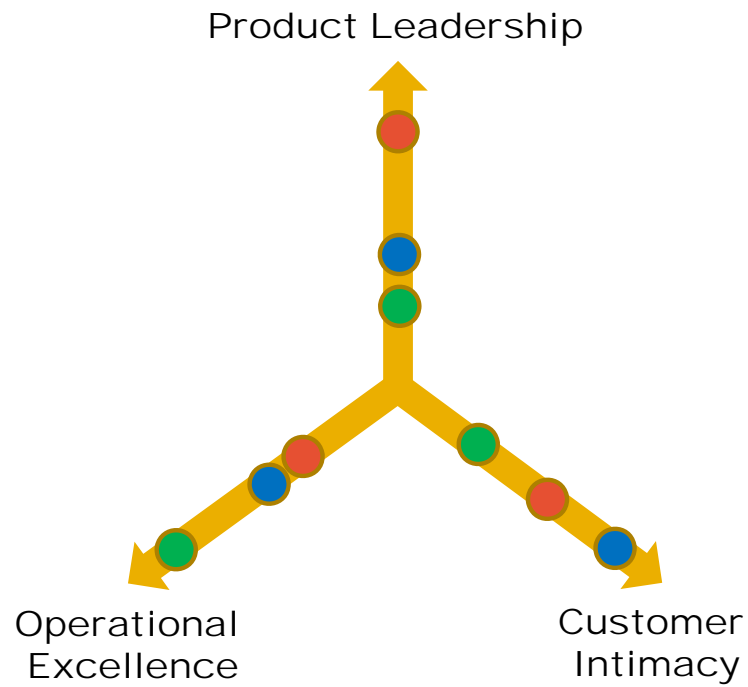
What words characterize the Future State of HR for your company?



A strategic framework for HR?

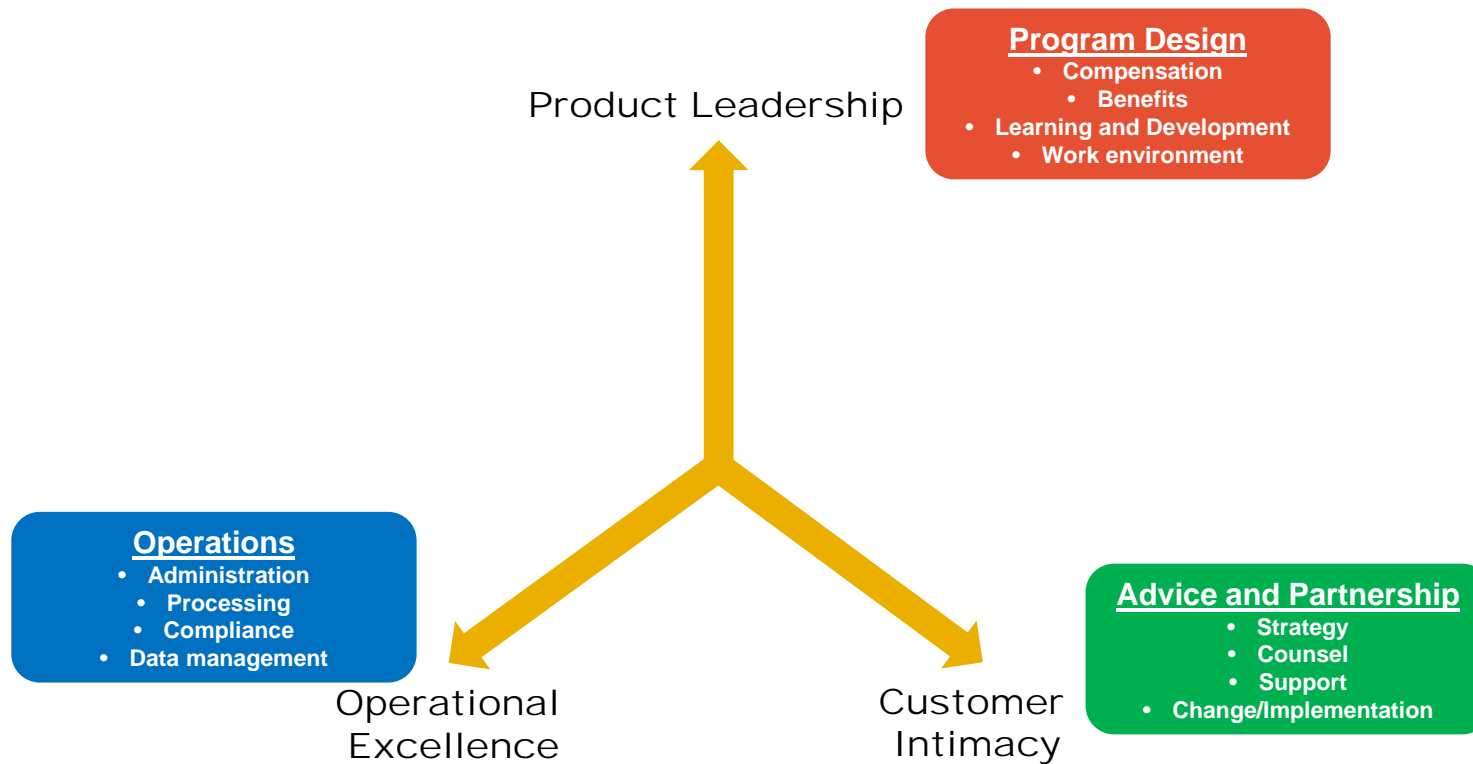


Treacy and Weirsema: The Discipline of Market Leaders



Application of strategy model to HR

The Discipline of Market Leaders



Future drivers of HR competitive advantage...



Product Leadership

Program Design

- Compensation
 - Benefits
- Learning and Development
- Talent Management
- Work environment



- ✓ Integrated (Total Rewards)
- ✓ Buy vs. make
- ✓ Private label
- ✓ Technology-enabled
- ✓ Customized

Future drivers of HR competitive advantage...



Operational Excellence



- ✓ Highly efficient/leveraged
- ✓ Agile
- ✓ Technology integrated
- ✓ Globally deployed
- ✓ Analytically-driven

Future drivers of HR competitive advantage...



New Definition of Customer Intimacy for HR



- ✓ Not new (but still critical): Internal consulting (insights and wisdom)
 - Strategy
 - Counsel
 - Support
 - Change/Implementation

- ✓ New: Focus on differentiated experience for employees (consumer-driven)
 - Segmentation
 - Analytics and Insights
 - Branding
 - Employee Experience

The new definition of customer intimacy for HR

Treating employees like consumers



70%

Percent of employees believing that their organization should understand them to the same degree that employees are expected to understand external customers

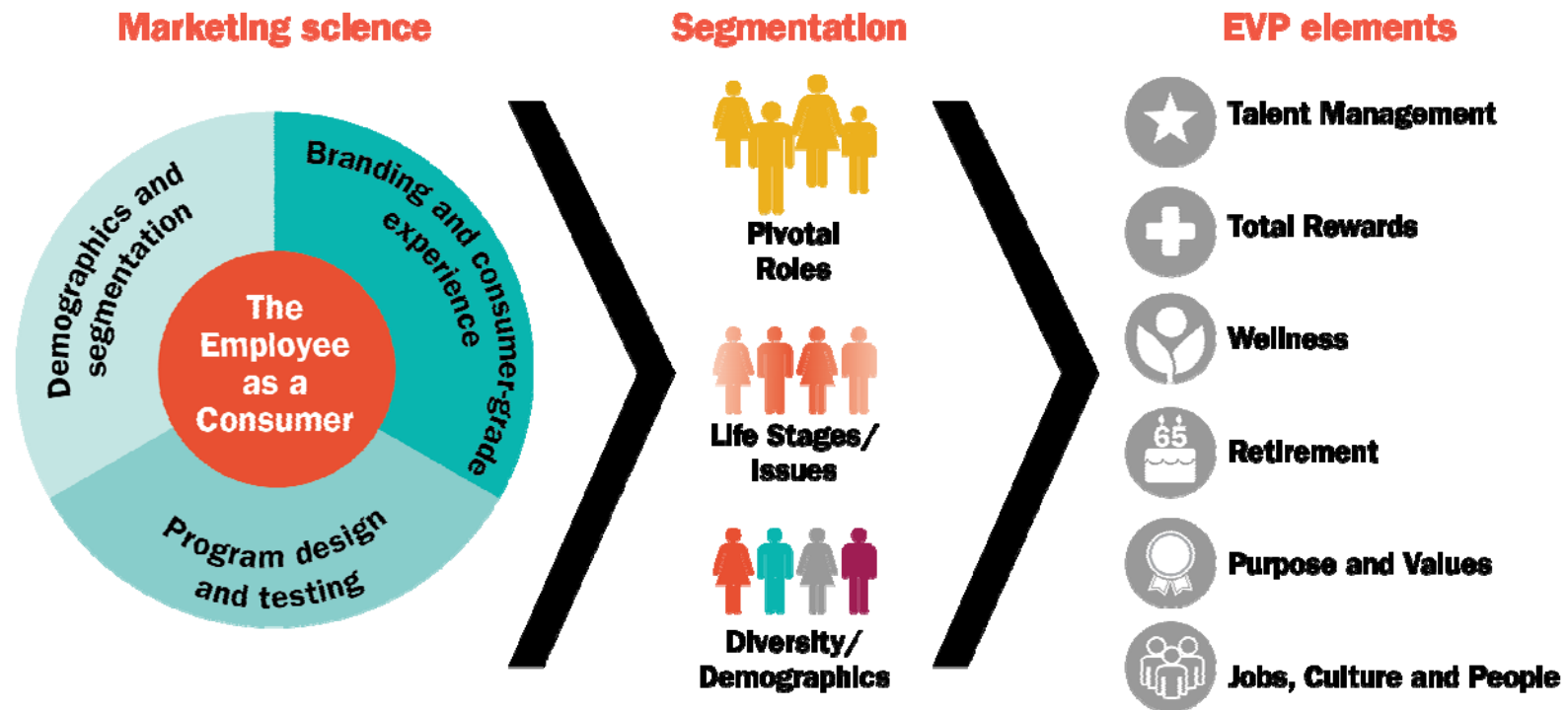
Percent of employees reporting having an employer that understands them in this way

43%

Source: 2014 Global Workforce Study, Towers Watson

The new definition of customer intimacy for HR

Treating employees like consumers



The new definition of customer intimacy for HR

Treating employees like consumers means...



1

Savvy segmentation

Segmentation: Helps to Understand the Values, Attitudes and Motivators of Target Segments

Current Workforce
Understanding who, what and how for current target segments allows you to deliver personalized employee "experiences" to engage and retain, and focus resources to drive the greatest value.

Who we're talking to

What motivates and influences them

How to drive sustainable engagement

Future Workforce
Understanding who, what and how for future workforce segments facilitates proactive strategy and planning to ensure the right employee brand elements are in place to attract the workforce of the future.

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2

Meaningful analytics

Unearthing "hidden gems" of opportunity

	Change in Value of Total Rewards	Change in Reward Cost
STI—201	100%	\$97.5M
Merit Increase—40%	100%	\$9.8M
401(k) Match—\$100-\$1 to 6%	100%	\$9.0M
Merit Weighting—Greater performance differentiation	100%	\$0
STI Weighting—Greater performance differentiation	100%	\$0
401(k) Company Contribution—6%	100%	\$4.8M
Merit—Premium +20%	100%	\$2.4M
Vacation—2 Weeks	100%	\$1.1M
STI—net	+10.9%	(\$14.7M)
Merit Increase—net	+2.9%	(\$1.8M)
Merit Weighting—20%	100%	\$0.0
401(k) Match—\$100-\$1 to 3%	+7.8%	(\$1.4M)
Merit—20%	+2.8%	(\$1.1M)
Merit—Premium +20%	+2.2%	(\$2.4M)
STI Weighting—Based on company performance	+7.5%	\$0.0
401(k) Company Contribution—4%	+7.2%	(\$3.2M)
Vacation—2 Weeks	+3.1%	(\$1.9M)

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3

Consumer-grade experience

Examples of strong internal brands from global peers

- "Where you work touches lives." — Disney
- "Rock Solid® Total Rewards." — Prudential
- "Inspired by purpose. Have your career validated 4 billion times a day." — P&G
- "Great people make great beer." — Miller Coors
- "Grow with us." — Kellogg
- "Share your passion." — BMW
- "Do cool things that matter." — Google
- "Help us build a smarter planet." — IBM

Source: Company websites

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Segmentation: Looking past the obvious



Generations

Baby Boomers | Gen X | Gen Y

Stage Profiles

Honeymooners | Seasoned Skeptics |
Believers | Future Leaders

Life Stages

Early Career | Family-Focused |
Mid-Career | Late Career

Preference Profiles

Show me the work | Show me the
flexibility | Show me the security |
Show me the money

Boxology

Departments | Locations | Functions

Pivotal Roles

Pillars and Pipeline | Innovators |
Market Makers

Business Stage

Emerging | Fast Growth | Mature |
Turnaround

Behavior Profiles

Quiet Champions | Loud Champions |
Outsiders | Transactionalists



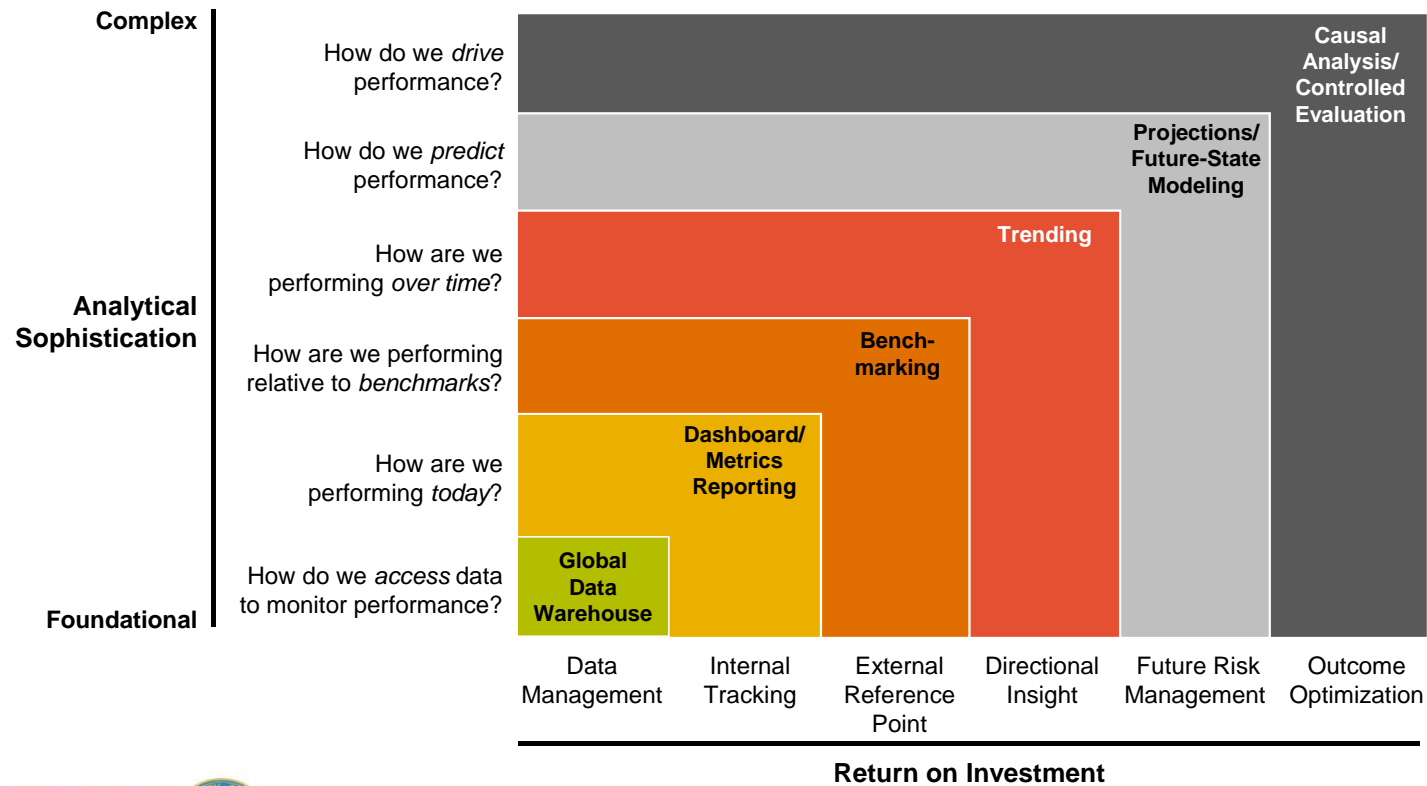
Unearthing “hidden gems” of opportunity



	Changes in Value of Total Rewards	Change in Reward Cost
STI—2X	6.4	\$67.5M
Merit Increase —+50%	5.4	\$6.5M
401(k) Match—\$1-for-\$1 to 6%	5.3	\$9.0M
Merit Weighting—Greater performance differentiation	4.6	\$0
STI Weighting—Greater performance differentiation	4.5	\$0
401(k) Company Contribution—6%	4.5	\$4.5M
Medical—Premium -20%	3.9	\$2.4M
Vacation—+2 days	3.7	\$3.1M
STI—Half	-10.6	(\$34.7M)
Merit Increase—Half	-9.5	(\$5.5M)
Merit Weighting—COLA	-8.4	\$0.0
401(k) Match—\$1-for-\$1 to 3%	-7.8	(\$4.5M)
Medical—OOP +20%	-7.8	(\$1.1M)
Medical—Premium +20%	-7.7	(\$2.4M)
STI Weighting—Based on company performance	-7.5	\$0.0
401(k) Company Contribution—4%	-7.2	(\$3.2M)
Vacation— -2 days	-5.7	(\$1.9M)

Note: Modeled impacts of various reward changes on value in Total Rewards are not additive due to the “portfolio effect.” Modeled impact assumes all other programs stay the same. Changes in value of Total Rewards are point increments or decrements to current value of Total Rewards of 79.5 (from valid conjoint data only).

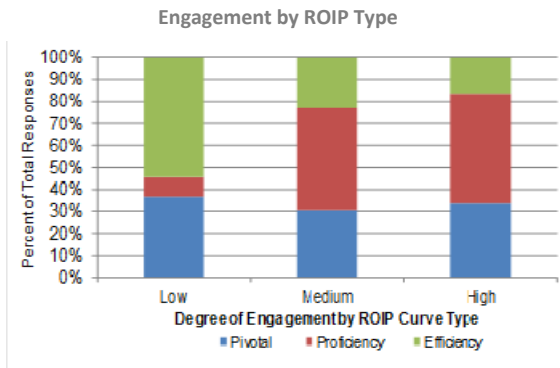
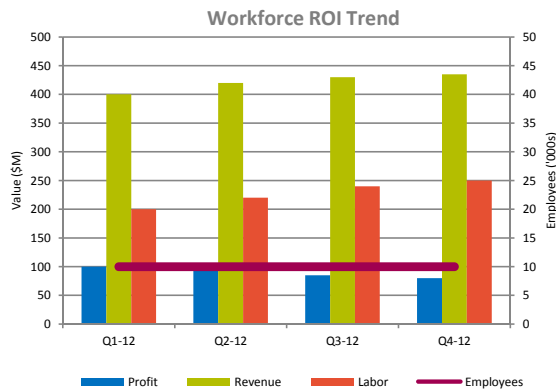
Using “big data” and workforce analytics strategically



Using "big data" and workforce analytics strategically

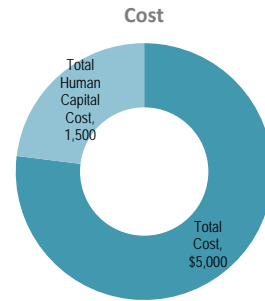


1. People productivity



2. People investment

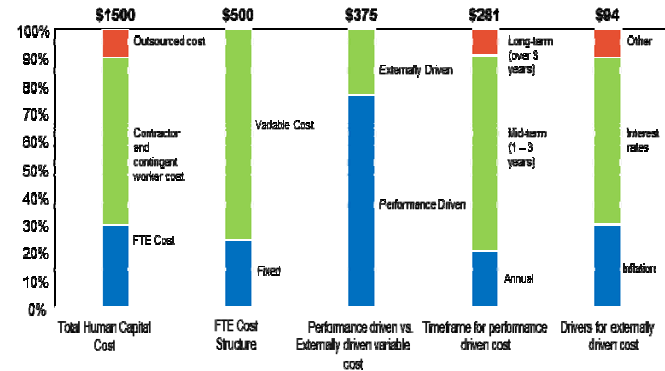
Labor Cost as a percentage of Total Cost



Other People Investment charts for consideration:

1. FTE vs. PTE cost by grade
2. Fixed vs. variable cost by grade

Labor Cost Breakdown by Type

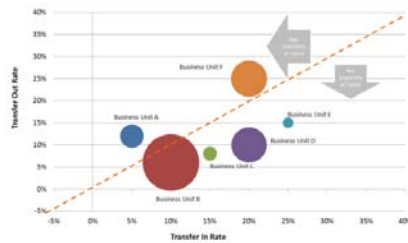


Using “big data” and workforce analytics strategically

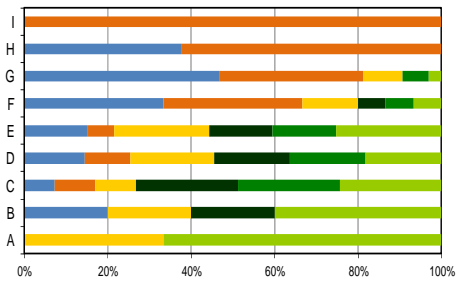


3. People capability

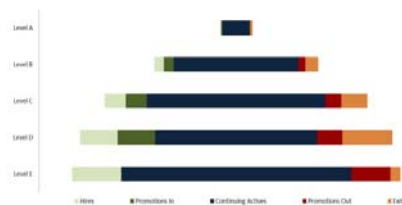
Workforce Mobility



Workforce Proficiency by Years

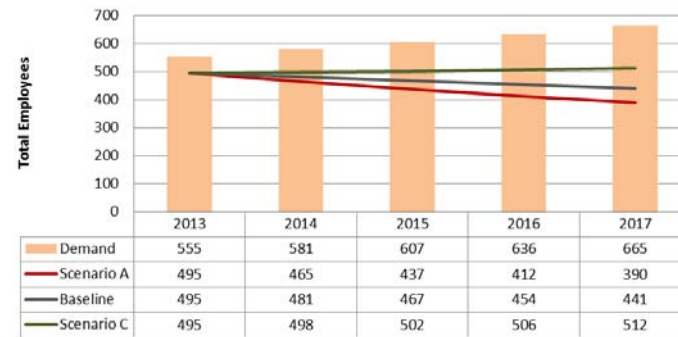


Overall Talent Flows

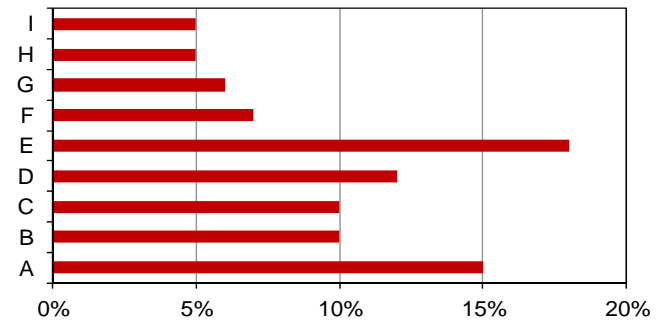


4. People risk

Labor Projection—Pivotal Roles

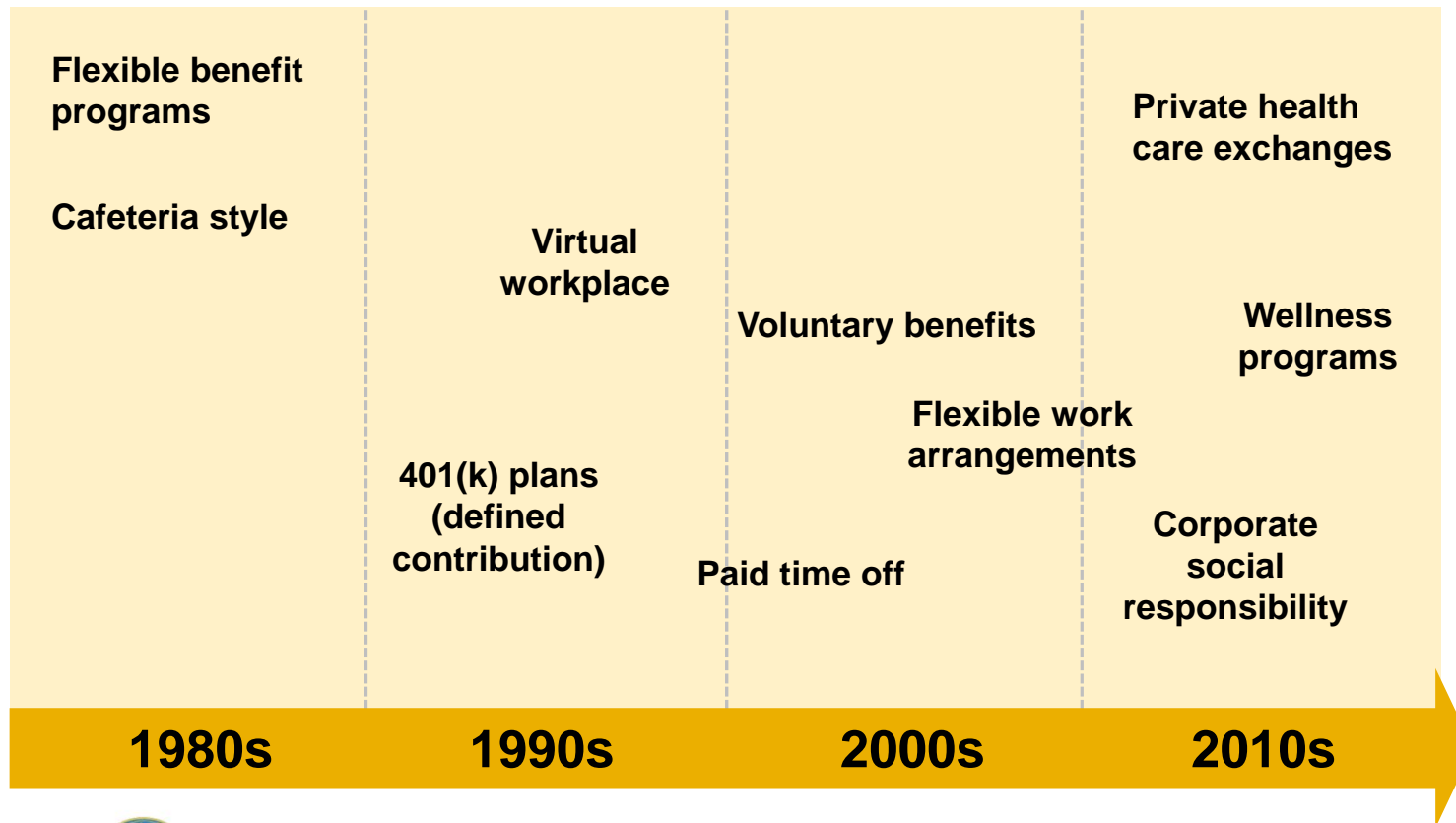


Turnover by Level



Consumer-driven HR:

The good news — Companies already have been doing this



Examples of strong internal brands from global peers



**“Where you work
touches lives.”**
— Disney

**“Rock Solid® Total
Rewards.”**
— Prudential

**“Inspired by purpose.
Have your career
validated 4 billion
times a day.”**
— P&G

**“Great people make
great beer.”**
— Miller Coors

“Grow with us.”
— Kellogg

“Share your passion.”
— BMW

**“Do cool things
that matter.”**
— Google

**“Help us build a
smarter planet.”**
— IBM

Source: Company websites

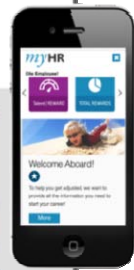
Goal is a consumer-grade experience...



It gets personal...and social...



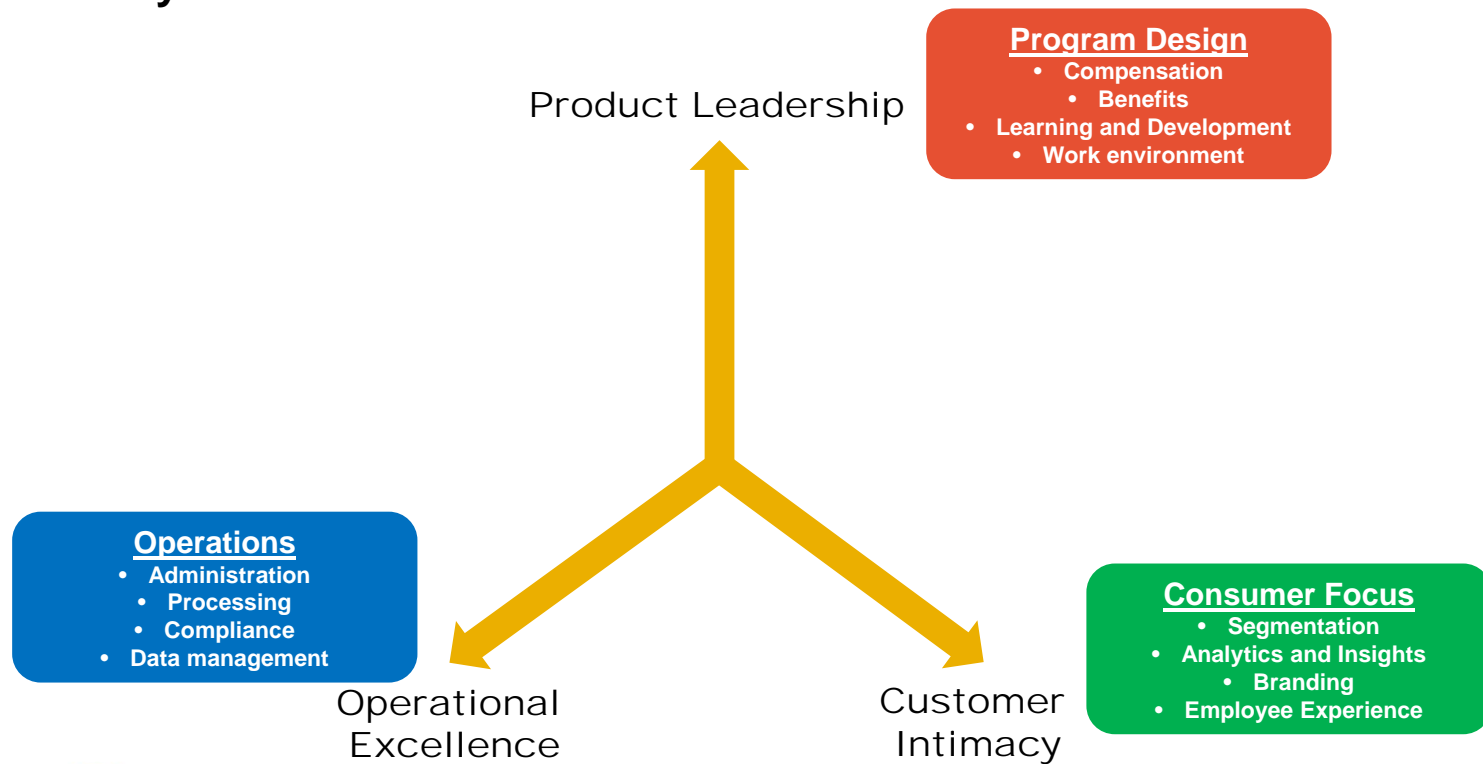
- What's in it for me and others?
- Which outcomes are the best for me? The team? How does it impact positive outcomes?
- How do my benefits work?
- How can I save money?



What does this mean for your HR strategy? *How will you seek competitive advantage?*



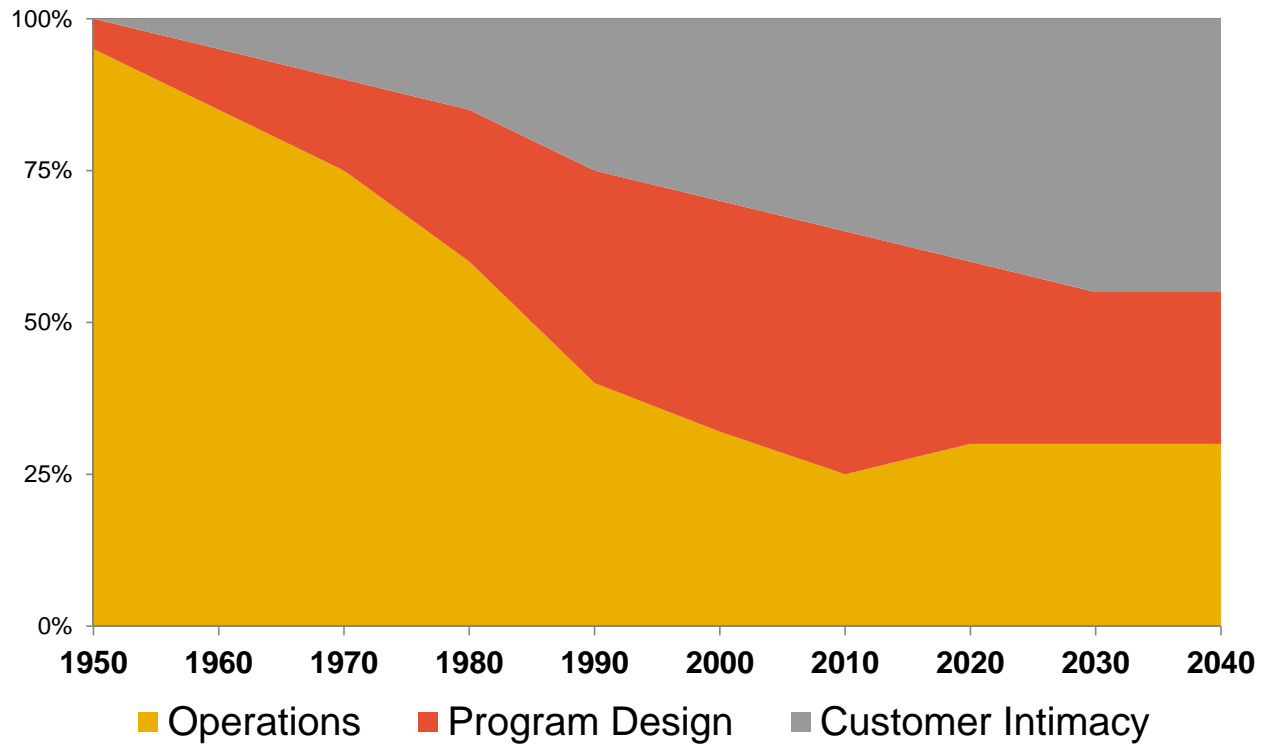
Pick your focus...



The HR time spend continues to morph...



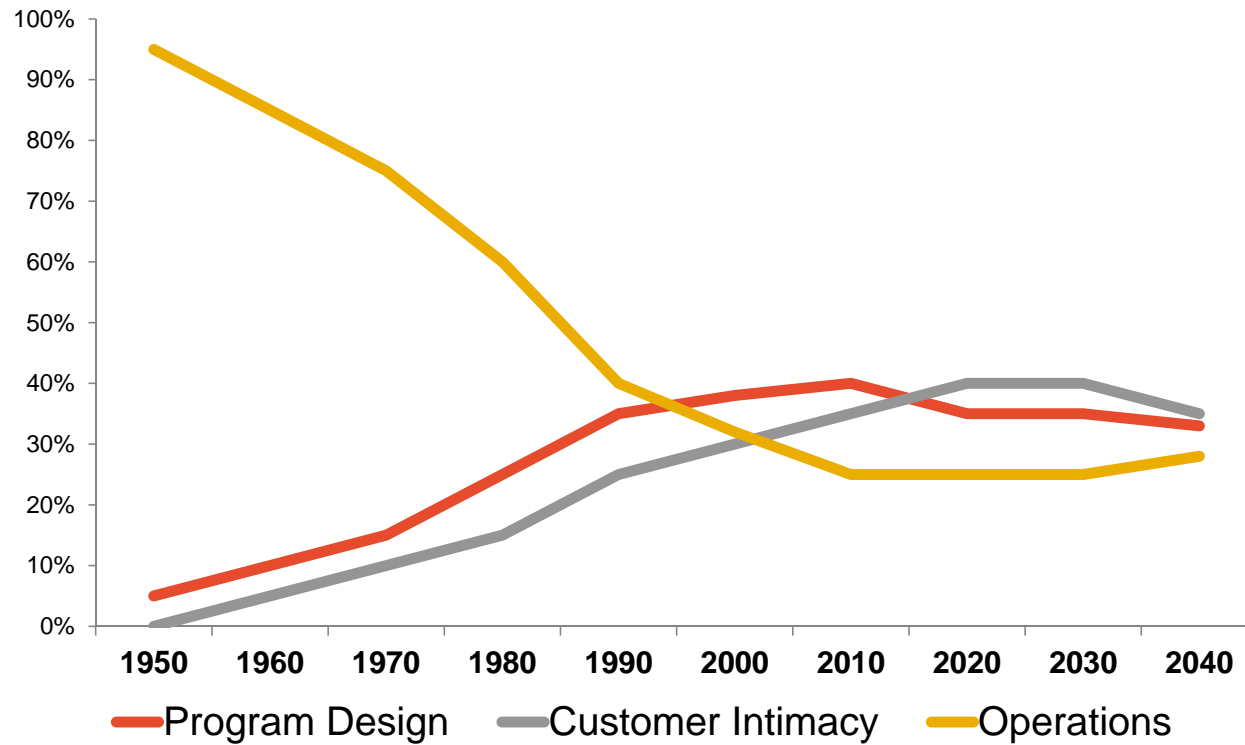
Percent of Time



The HR time spend continues to morph...



Percent of Time



Chief Employee experience officer



Personnel director

- Tactical
- Operationally focused
- Employee as cost
- Implement programs
- Local
- Manager/Director level



Vice president, HR

- Broader
- Organization-focused
- Employee as resource
- Design programs
- National
- Vice president level



CHRO

- Strategic
- Business-focused
- Employee as asset
- Direct programs
- Global
- C-suite level



Chief employee experience officer

- Futurist/Strategist
- Differentiation-focused
- Employee as value
- Transcend programs
- Borderless
- Board advisor

Chief employee experience officer



CHRO

“I direct programs to balance the needs of employees, the company and shareholders.”



**Chief employee
experience officer**

“I create an employee experience that unleashes the potential of our talent to create incremental value for our customers and shareholders.”



Questions