



# Remuneration strategy in crisis: to retain talents while optimizing cost management

9 April 2015



Совершенствуя бизнес,  
улучшаем мир

*otto group russia*

# Agenda

**EY**

*otto group russia*

**1**

Key approaches to human capital management in crisis: Market practice

p. 3

**2**

OGR Practice: Key approaches to human capital management in crisis

p. 12



# 1. Key approaches to human capital management in crisis: Market practice

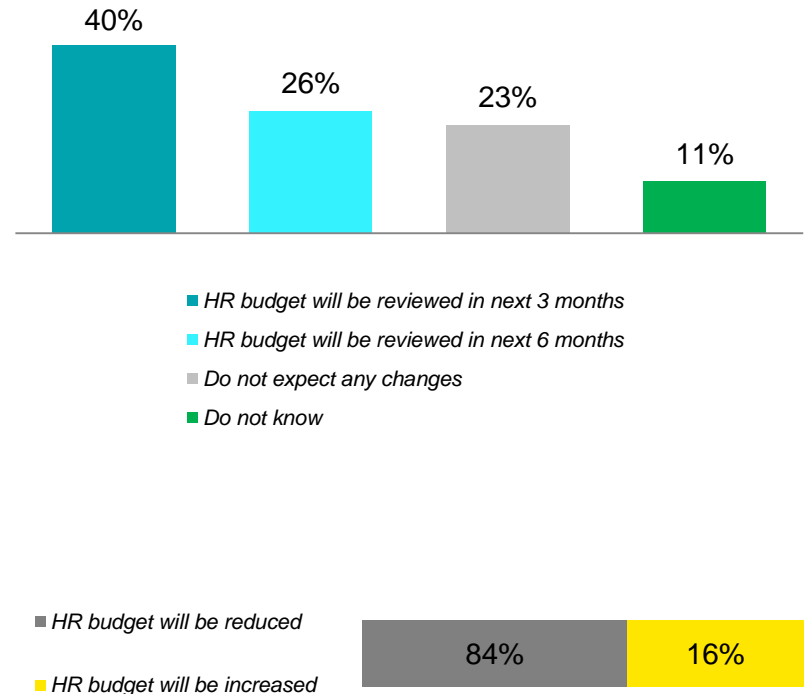
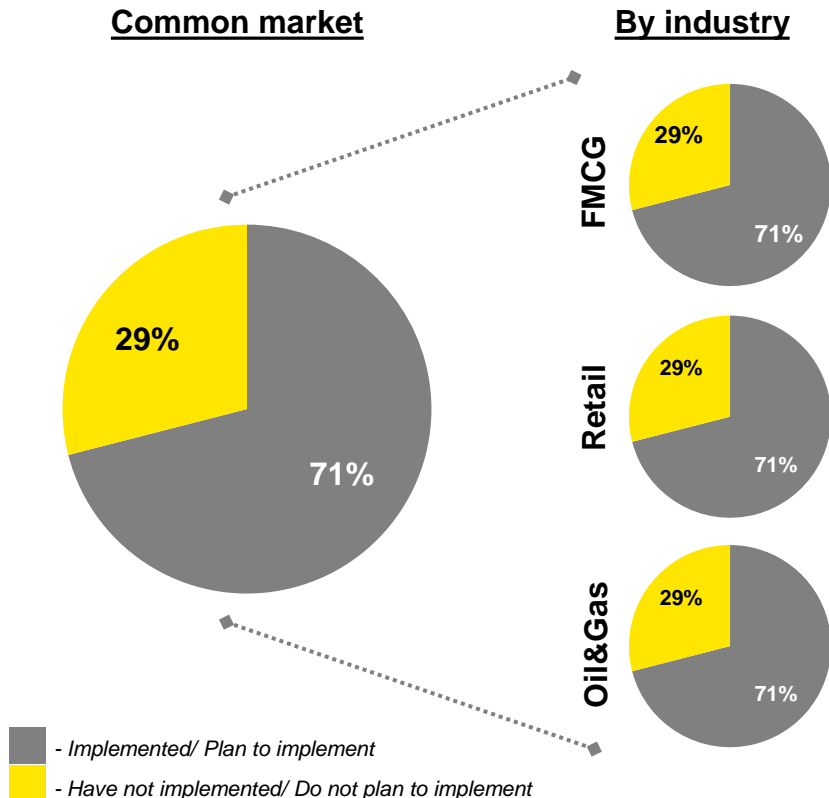


# Key approaches to human capital management in crisis

The majority of companies are considering to change their human capital strategy according to the current economic environment. For most of the companies it is also an opportunity to improve business performance

## Anti-crisis measures in HR management

## HR budget review for 2015



# Key approaches to human capital management in crisis

All companies have two main approach lines to human capital management in crisis:

1

## “Quick wins”:

- Working time arrangements
- Headcount optimization
- Amendment to Compensation & Benefit system
- Cutting of other personnel costs



2

## Long-term strategies based on selection of core business functions:

- Outsourcing of non-core business functions
- Business units consolidation/ optimization
- Business processes optimization
- Corporate culture transformation



# “Quick wins”

1

## Headcount optimization

2

### Working time arrangements:

*Paid vacations*

*Unpaid leaves*

*Part-time work (short day or short week)*

3

### Amendments to Compensation & Benefit system

*«Freeze» of current salary levels for most employees based on business analysis results*

*Correction of bonus system (setting limits for max payments, implementing of blocking KPIs)*

*Amendment to benefits system (stay «as is», setting limits or decrease of the benefits' list/ costs)*

*Currency changes of employees' remuneration (Employment Agreements)\**

4

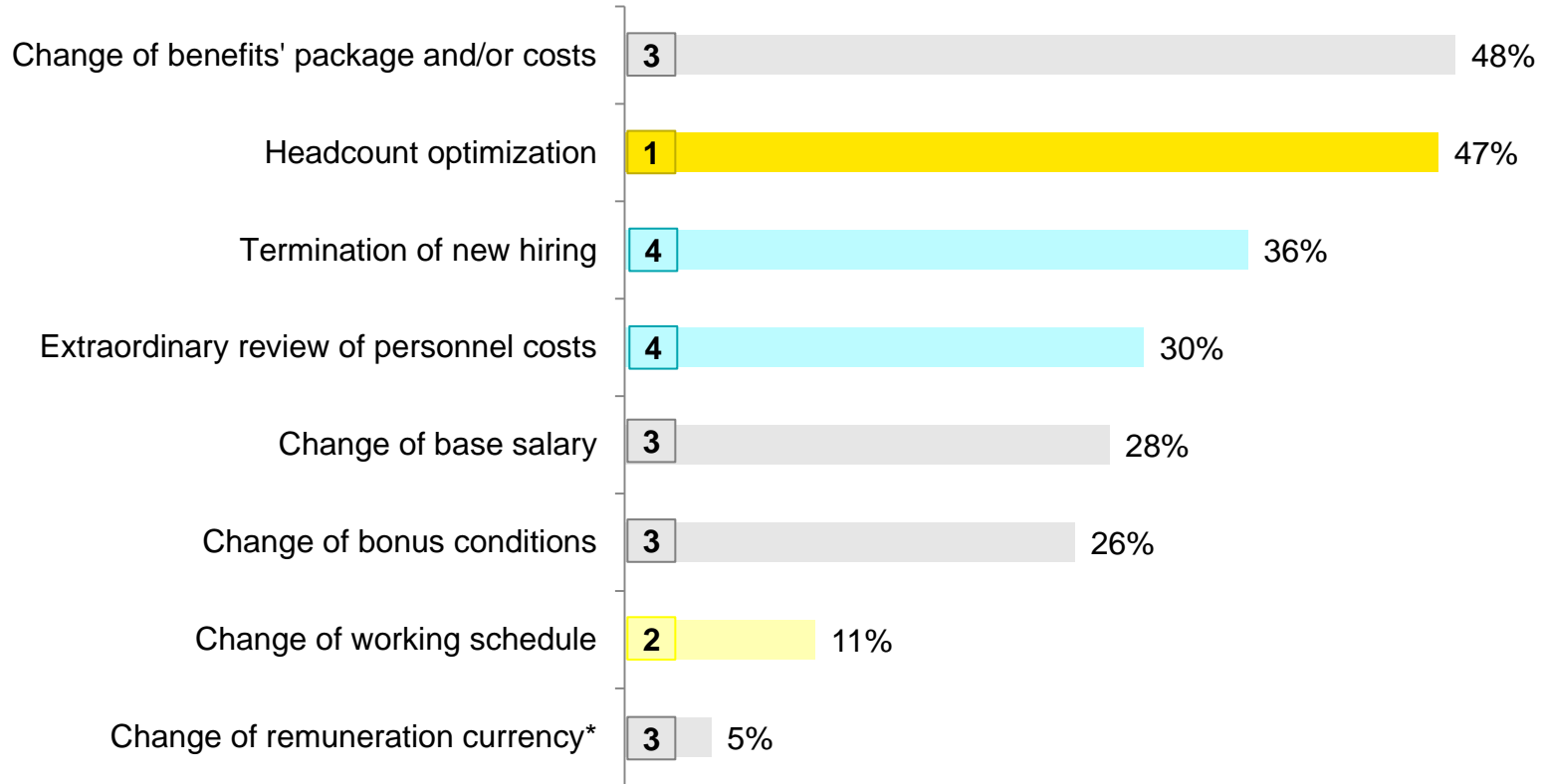
### Other personnel costs optimization:

**Recruitment related expenses** (*elimination of «sign-in bonuses», decreasing a work-flow with agencies, including recruitment freeze*)

**Learning and development expenses** (*decreasing of external training*)

**Internal communications/ corporate events**

# Market practice on applicable anti-crisis approaches



**1** Headcount optimization   **2** Working time arrangements   **3** Amendments to C&B system   **4** Shortcuts of other personnel costs

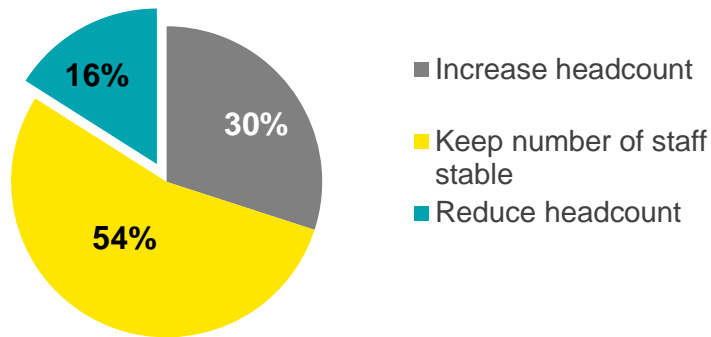
\* Change from foreign currency into Russian rubles

# “Quick wins”

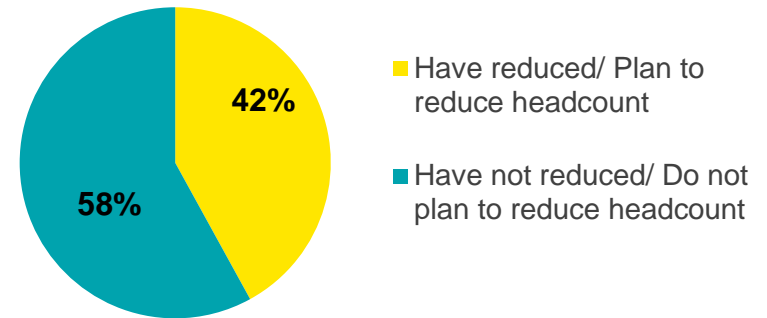
1

## Headcount optimization

2014-2015



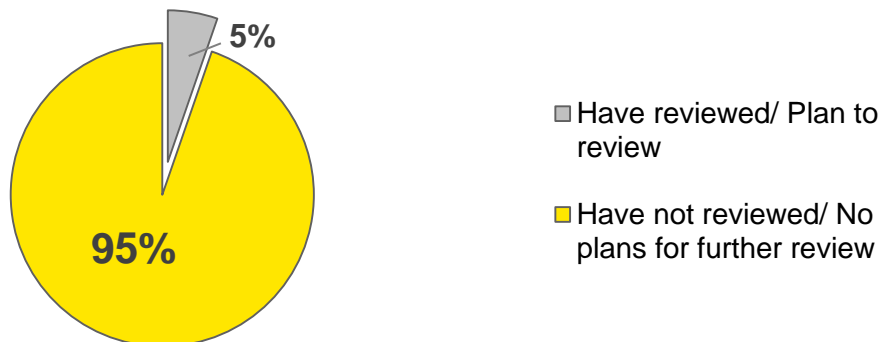
2015



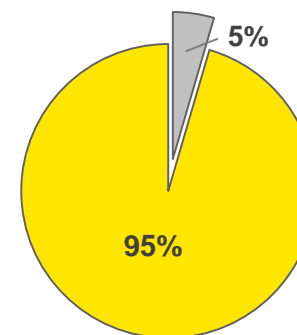
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## Working time arrangements

Part-time work/ reduced working week



Unpaid leave, % of companies

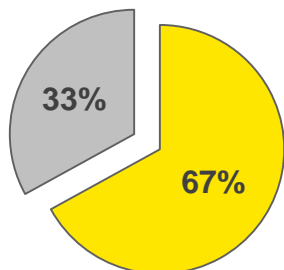




# “Quick wins”

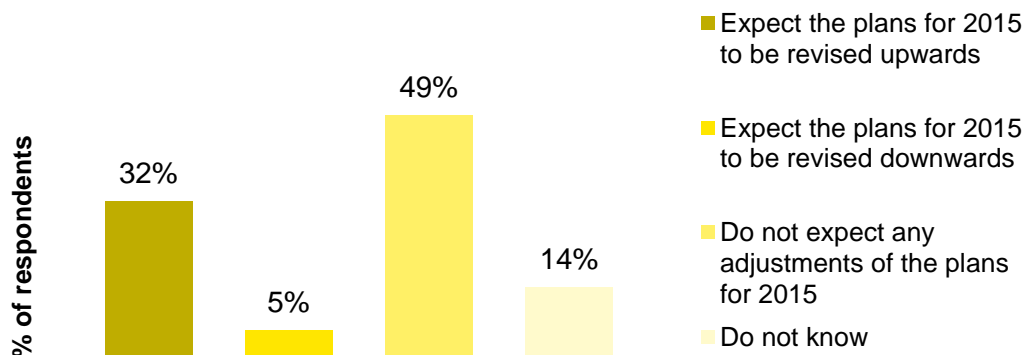
## 3 Amendments to C&B system

2015



- Have changed/ Plan to change
- Have not changed/ Do not plan to change

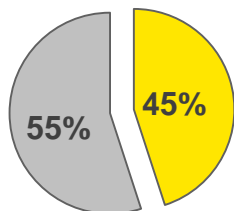
### Possible changes of the plans on salary review 2015



- Expect the plans for 2015 to be revised upwards
- Expect the plans for 2015 to be revised downwards
- Do not expect any adjustments of the plans for 2015
- Do not know

## 4 Other HR expenses

41% of companies plan to review/ have reviewed HR costs for 2015:



- % of companies that plan to increase costs
- % of companies that plan to reduce costs

The majority of companies plan to optimize HR costs in 2015 by reducing training costs, which is similar to the measures applied in 2009

## 2.2. Long-term strategies based on selection of core business functions

1

### Outsourcing of non-core business functions

*Outsourcing of non-core business functions to external contractors*

#### Opportunities:

Reduction up to 99% of personnel employed in selected functions  
Fast cost cutting

2

### Business processes optimization

*Elimination of «needless» actions and operations, combination of business operations, simplification of document flow*

#### Opportunities:

Reduction up to 50% of employees  
Increasing of organizational transparency  
Variety of opportunities for business-processes centralization and optimization

3

### Business units consolidation/optimization

*Optimization of business units, delayering, establishment of shared functions (facilities) and centers of excellence*

#### Opportunities:

Reduction up to 30% of employees  
Extra costs cutting  
Time reduction  
Increasing employees' motivation in case of multi-skilling

4

### Corporate culture transformation

*Increase of management team involvement and loyalty, team-building, building up corporate identity*

#### Opportunities:

Retaining talents and high performers  
Increasing employees' motivation

# 2.1. Summary

## How to optimize HR related costs?

Change of benefits package or costs

Base salary freeze

Change of bonus conditions

## How to retain talents?

In order to improve efficiency and employee satisfaction to use differentiation approach while optimizing benefits package:

- To give an opportunity to best employee to choose what benefits are most important for them and retain them
- To implement benefits cafeteria or other alternative approaches
- To reduce package only for those who are less effective
- To apply new creative and sophisticated solutions in non-material motivation

To use differentiation approach:

- Not to “freeze” salary for the best employees (if possible)
- To set up more ambitious goals, but extend bonus potential



### 3. Practice of Otto Group Russia: key approaches to human capital management in crisis



# Otto Group Russia

## The Otto Group worldwide

- Over **54,250** employees worldwide
- **123** significant Group companies
- **3** segments:
  - Multichannel Retail
  - Financial Services
  - Services
- More than **20** countries of presence

## About Otto Group Russia (OGR)

- Russia's leading mail-order company since 2008
- Russia's #1 online retailer
- ~ 550 mln. Euro revenue (50% - via online channel)
- Every 6th parcel by Russian Post is sent from OGR

## OGR comprises several companies in Russia spanning a number of business segments

- The Group operates in distinct, albeit related, business segments, including more traditional services such as Catalogue & Mail order, as well as a new and fast-growing E-commerce sector
- The Group also includes logistics and warehousing segments with its central warehouse in Tver'



# Personnel costs optimization/ headcount optimization



- Target for personnel costs optimization was set in % from planned personnel costs for 2015 depending on functions (and, respectively value that these functions create to business)
- Target % has been set on the basis of external and internal benchmark
- HR offers each Function Head several scenarios how the target number of personnel costs optimization could be achieved.

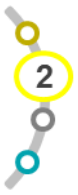


In spite of personnel costs optimization provided services and function scope should be the same as before

## Personnel costs reduction by functions

	Front functions:	Support functions:	Shared functions:
	<ul style="list-style-type: none"> <li>• Sales</li> <li>• Marketing</li> </ul>	<ul style="list-style-type: none"> <li>• Assortment</li> <li>• Design</li> </ul>	<ul style="list-style-type: none"> <li>• Finance</li> <li>• HR</li> <li>• IT</li> <li>• Facility</li> </ul>
<i>Target % of personnel costs reduction)</i>	<b>3%</b>	<b>7%</b>	<b>10%</b>

# Working time arrangements



Currently there are no essential changes in this aspect. Depending on the business situation some actions could be taken

## All employees

- More attention is paid on reducing employees' vacation balance
- HR monitors employees number of vacation days spending by employees in the respective calendar year



## Production function

- Working time arrangements for production function directly depend on the business and sales volumes of the front office
- So, if needed some actions such as shifting to short-day or short-week arrangements could be taken



# Compensation and benefit system

## Benefits



- In OGR there is a fair benefit system differentiated by grades and employees' categories
- According to employee's grade there may be varied both set and level (value) of provided benefits

### Medical Insurance, Life Insurance

- This benefit is applicable for all personnel categories in the Company, but the type of Medical Insurance and Life Insurance plan is differentiated by grades and regions
- Recently insurance-related costs have significantly increased by providers, but OGR is not planning any changes for this benefit



### Parking

- The benefit "Parking" is proposed to a limited number of employees on the highest grades
- Also there was a waiting list for employees on the middle grade who are eligible for this benefit but haven't received it yet
- A decision was made to cancel the waiting list for middle grades employees for this year

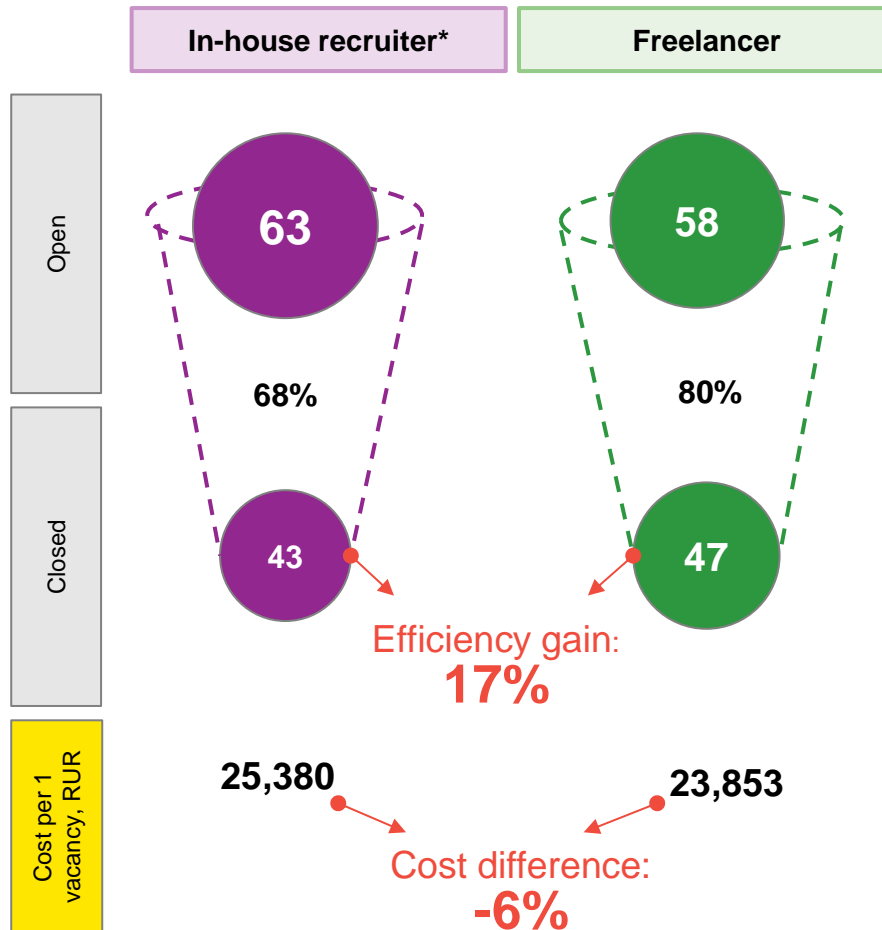




# Other Personnel Costs

## Reducing recruitment costs by using freelancers instead of internal recruiters or agencies

Freelancer model for recruitment purposes proves its efficiency as an alternative for in-house recruitment and recruitment agencies by both factors: efficiency gain and costs optimization



### Key advantages of Freelance model:

- Personnel cost efficiency compared to in-house recruiters: no social payments, vacation payments, etc. The company pays only for the result
- Cost reduction on recruitment through recruitment agencies: in OGR only 10% of all open positions are given to agencies (less than market average: 20%)\*
- Flexibility in the allocation of open positions between freelancers and recruitment agencies in accordance with the complexity of recruitment

# Other personnel costs

## Trainings and corporate events



### Trainings

- Budget for professional trainings has been deducted
- Soft skills trainings' are HR responsibility
- Trainings has become more specifically directed and offered only for high-performers

#### BEFORE

Presents for all employees / "Classical" corporate events in restaurants

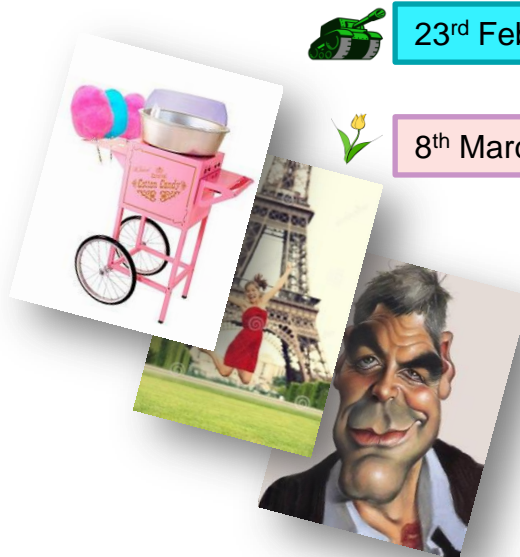
#### NOW

Drive, fun and entertainment



Positive emotions

### Corporate Events



23<sup>rd</sup> February

- Caricature drawings based on military themes



8<sup>th</sup> March

- Cotton candy machine in cafeteria
- Professional photo sessions for ladies



Increased employees satisfaction



Reduced budget costs

**Thank you!**

