



Point/Counterpoint: HRM Market Consolidation

An interview series with Naomi Bloom and Jim Holincheck

Welcome to the introductory point/counterpoint interview with Naomi Bloom, managing partner of Bloom & Wallace, and Jim Holincheck, Vice President of Gartner, on important topics in the HR technology space. We believe you will find important guidance and challenging perspectives from these two industry experts. We look forward to sharing more of these interviews with you in upcoming *Workforce Solutions Review* issues.

WSR: Briefly explain the lens through which you view the HR technology market.

Jim: I think it's important to understand what analysts do. We use our research to understand what is going on in the market, today and in the future, so we can tailor our advice to each client's circumstance. We look at how our clients can improve what they have today and then make the right decisions to get to where they should, or would like to, be in the future.

Naomi: I have two very different roles in the industry. When I am working with an individual client, I need to help them find the best solution that can be implemented under the client's current circumstances. My larger industry role as an influencer focuses on what we should be doing. I see my influencer role as pushing vendors to deliver better products, pushing HR to do a better job at process design and the analytical work that underlies good competency design, and pushing the C-suite to understand

what good human resources management looks like and why it matters. With two such different roles, I often feel myself as having one foot on the boat (the future of HR technology) and one foot still on the dock. I am planted firmly on the reality of today, but I am also trying to guide our industry toward a better reality for tomorrow.

WSR: With the recent and continuing flurry of HRM vendor acquisitions, in what areas do you expect more activity? For customers, how do you see today's consolidating market benefiting or not benefiting them? What advice do you have for vendors regarding this industry consolidation?

Jim: I think we are going to see HR management systems consolidation across the board in core HR, talent management, and workforce management solutions. As markets mature, it is natural to see this kind of consolidation. Usually mergers happen for three reasons: the vendor is trying to gain market share so they buy a company in the same market, they are attempting to eliminate a competitor, or they are trying to move into an adjacent market or new market faster than if they tried to build the product or customer base themselves.

The challenge from a customer perspective is that with all the merger activity happening, where do you place your bet? What is going to happen to the products the acquired vendor is providing you and how do you protect yourself in that instance? It is important to have the right change of ownership/control contractual clauses in your contracts so that, if your vendor is acquired, you can take appropriate actions.

From a vendor perspective you have to understand your place in the market and position yourself best for it. Do you have the resources to be the acquirer or are you best in a position to get acquired? There are a lot of opportunities in either position and it is important for vendors to decide what they want to be when they grow up.

Naomi: I recently wrote a post on this topic entitled, *HRM Vendor Consolidation Fairy Tales*, <http://infullbloom.us/?p=1803>. There are several forces at work driving all of this consolidation, and Jim mentioned a number of those. But, I think there is another one, which is the role private equity is playing in our market. Major funding is coming in, but often not accompanied by deep knowledge of the HR technology market. These investors don't always know the details of the software assets they are buying and that can lead to some unpleasant surprises when their return on investment doesn't match the investor's expectations. The "funded" company can then find itself going from being an acquirer to being acquired

or broken up in order to meet an investor's requirements.

From a customer perspective, if you are on an outdated product being acquired by a well-positioned vendor with great products, this can be an excellent outcome. Vendors always say they are not sun-setting or reducing support for the acquired software, but they quite often do. This is why I wrote the fairy tale post.

From the vendor perspective, to Jim's point, vendors have to know their goals. When it becomes obvious that you are not going to be one of the top players, you rapidly become a target. Once you are a target, you need to position yourself to get the best possible outcome.

Jim: In the area of market consolidation, Oracle's acquisition of PeopleSoft was a watershed event because it showed us that a vendor of almost any size can be acquired by a "bigger fish." Some of the vendors that we may think of as acquirers today aren't so large that they couldn't be snapped up by an Oracle, SAP, or another larger firm. One of the concerns I have when I see this kind of consolidation happening is stifled innovation. I don't think that has happened yet, but customers need to be on the lookout for vendors who focus on sales and milking the customer base, as opposed to true innovation.

Naomi: Let me add to the innovation theme. There are hostile takeovers and congenial mergers/acquisitions. In the wake of a hostile takeover, but even in some congenial mergers, talent leaves. Some employees may not want to move from a small, very entrepreneurial enterprise to a larger, more complex environment. When I follow consolidations, I try to follow the key talent, the creators in the company. If those company leaders stay one year after the consolidation, then that can be good for the future of the organization, but if they leave within six months, then it is a cause for serious concern.

WSR: Given that many global organizations have multiple HR management systems in place and considering the vendor consolidation we just discussed, how do you suggest that an organization develop an effective global analytics platform?

Jim: If you look at most global organizations, they have a portfolio of solutions they use for managing human capital, but when you think about analytics, you want a single version of the truth. That can be difficult to achieve in that disparate environment, but we see a few different strategies being deployed by organizations in this state. First, we have seen business intelligence and data warehousing tools used to extract data from the various systems, transform it, and make it available for analysis. Second, we see organizations using a data feed from a variety of systems to a central system as the consolidating point. Third, we see organizations that try to standardize on a single HR management product. Last, some just live with the fact that they are on disparate systems and

reports. The biggest challenge in analytics is that you have to begin with the end in mind. You first need to think about what you are trying to deliver to the various stakeholders and then work backwards. You also need to determine now how to create the flexibility that will be needed over time as the business evolves.

Naomi: I think there is another consideration here. Getting great global clarity around what the data mean is, in my mind, the biggest challenge. Even if we had perfect systems or we were all on one inter-galactic system in the sky, we would still all have to agree on the underlying semantics of our data. If you don't decide on this point, then you have a lot of data and it is interesting, but you haven't changed anything. For example, since labor laws differ so much by country, how do you establish a global definition for legal employee as differentiated from contingent worker such that a global head-count report makes sense?

Jim: True, Naomi. I am totally with you on defining the semantics of data. I think it is interesting that we haven't come up with more standard definitions. One area where Finance has an edge over HR is that there are standard definitions of what is being measured through generally accepted accounting principles (GAAP) or international finance reporting standards (IFRS). Lacking those kinds of measures in HR, every company makes up its own definitions. That was what I was alluding to in terms of beginning with the end in mind. Analytics are about what decisions you are trying to make and then figuring out the right technology delivery to support it.

Naomi: I agree Jim, but one more point is that when you look at a company today in terms of the collection of systems, the way they are connected or not, or how applications have been selected, you are the beneficiary or the victim of a set of decisions that have been made over many years. If those decisions were well-made, you may be in great shape. If those decisions were poorly made, you are in trouble, and the cost of unscrambling may be almost insurmountable. You might as well start over in some cases. I do believe that we are beginning to see, with clarity, that companies that have done a good job in the systems area are far more agile and successful than the ones that haven't.

WSR: In regards to Fusion, how should Oracle EBS and PeopleSoft Enterprise customers be thinking about their HR management system and talent management strategy?

Jim: I think we have to remember, at least at the time of this interview, that Fusion applications are generally not available yet. For most EBS and PeopleSoft customers, if you are looking at your next upgrade, Fusion is not something that you are considering moving to fully at this point. If customers are interested at all, they are consider-

ing Fusion in a co-existence strategy; the most common one being using Fusion talent management applications along with their existing core HRMS application. This allows customers to dip their toes in the “Fusion water” while still having the stability of their administrative applications running on a more proven platform. Most of the customers that we are talking to about upgrade alternatives are looking at two types of solutions: Software-as-a-Service (SaaS) vendors and third-party maintenance agreements that can reduce the cost of running HRMS applications. I don’t expect that we will see a wholesale movement to Fusion in 2011. I think this will be a relatively cautious year as Oracle tries to get it off the ground. Frankly, Oracle doesn’t need to push that hard because the Applications Unlimited products are very profitable for them and they can afford to make sure that Fusion has a successful launch by setting the bar of expectations relatively low so goals can be easily achieved.

Naomi: I think the purpose of Oracle’s Fusion applications, at least in the human capital area, was not about Fusion *per se*, but rather about holding onto an installed base and its corresponding maintenance revenue stream. In order to use Fusion applications or even parts of them, you have to use Fusion Middleware. If you are a PeopleSoft HCM user, you have to look at some realities. First, you are “riding a dinosaur.” There will not be a PeopleSoft 10; Fusion applications are the future and you will need to commit to Fusion Middleware to use them. Now that makes perfect sense if your entire corporate backbone is committed to Oracle. But, if that is not the case, the last thing you may want to do is develop the expertise needed to manage Fusion Middleware just for HCM. Your circumstances are quite different if you are an EBS customer, because EBS is already running on Fusion Middleware. You will already have some of that Fusion expertise in house, and the object models between EBS and Fusion applications are more similar than those between PeopleSoft and Fusion HCM. I am advising PeopleSoft customers that, unless you are making a wholesale move to Oracle as your backbone, you should look elsewhere for HCM. If you are running on an older version of PeopleSoft, you may be under some pressure to do something more quickly, but if you are on a more recent version and are receiving regulatory updates, you have time to do some hard thinking about your broader system strategy, not just HCM. There are a number of other vendors in the space who are very interested in that PeopleSoft-installed base, so you have a lot of opportunities. If Oracle sees that the installed base starts to bleed more rapidly than its financial model would like, I think we will see Fusion applications coming on the market faster with some potentially attractive pricing.

Jim: I think Naomi is right. I would say that the Fusion go-to-market strategy is definitely based on keeping the

installed base, initially being a competitive block to SaaS talent management and broader HCM providers. One interesting thing we have seen is that some customers going through the HCM decision process have decided to stay the course and upgrade, or actually buy additional PeopleSoft modules. I agree that we may never see a PeopleSoft 10, however, there are still many quality capabilities in the current solution and, especially for some long-term customers, it may make sense to continue to leverage that investment even if you choose to move to another vendor down the road. Gartner has written research suggesting that if you have a commitment to Oracle, moving to Fusion Middleware as a PeopleSoft customer makes sense as a stepping stone to Fusion. For some customers who are on 8.8 and 8.9 today, there can be compelling new functionality in 9.1 that could push you to that upgrade.

Yes, PeopleSoft HCM may be a bit of a dinosaur. You want an investment that will take you the next 20 or 30 years as opposed to one that has its genesis from more than 20 years ago. Each customer’s circumstances are different, but all the options are certainly on the table.

Naomi: This is an area where there is no one right answer. It is totally dependent on the particular circumstances of the customer. Within the PeopleSoft customer base, there are a set of customers that went to PeopleSoft early because they were early adopters. Their mind-set or their business may have required the push that new technology can sometimes give you. Now, obviously some of those customers are in the position of being a little “long in the tooth” in terms of systems. They have a sunken capital investment that has long been written off. It is going to be painful to move to something else, but if they cannot continue to innovate or continue to maintain a reputation for innovation, which is important for attracting certain parts of the workforce, they need to move on to the next thing. PeopleSoft clients that bought in later, or even very late adopters, will be able to ride this out for quite a while. They may not need the same level of innovation. There is a psychology to this and it is very important for customers to know themselves and understand where their company should be positioned from early to late adoption.

WSR: We would like to thank Jim and Naomi for sharing their thoughts. In our next issue, we will discuss the concept of HR management service and really explore the topics of SaaS and Cloud computing.

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