



Shifting Sands Don't Mean Sinking Sands: Coping with Change in the HCM Software Market

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Just when you thought your human capital product landscape looked pretty comfortable, perhaps even predictable, the sands shifted – and likely in ways you never expected. Welcome to the world of software! At the very least, it is interesting – and at worse, disarming and fraught with uncertainty. Mergers and acquisitions create disruption for users – lending confusion to technology plans and short and long-term strategies. Here we look at some of the changes, the results, and the strategies you can undertake in planning your technology strategies in a constantly changing world.

Let's start with the premise that the vendor world responds to demands from the consumer world – in this case, *you*. We'll assume that a provider of human capital management solutions is driven by the desire to provide what users want in an efficient and timely way. Today, the impetus for change from the users side is significant. Consider the following:

- Globalized talent markets, shortages of skills, and leadership gaps are forcing companies to address their talent needs in totally new ways. Human capital management (HCM) solutions, originally designed to automate HR practices, are now considered strategic tools for business operations and management decision-making. The complexity of cross-border business, varying regulations, taxation differences, and similar requirements challenge HR leaders to seek ways to manage a diverse, global workforce effectively.

- The infiltration of consumer technologies in the workplace has fostered a demand for dynamic, social, user-friendly applications that appeal to HR and the workforce members themselves. The concept of “social” has markedly changed the user experience (and software interfaces), increasingly smaller access devices have prevailed in the workplace, and HCM solutions – such as learning, recognition, and performance management – have moved to the employee, rather than requiring the employee to go to them (and perhaps, horror of horrors, be required to log on more than once).
- Companies want integrated data about their employees (their skills, tenure, likelihood to leave, performance, etc.) to better align strategies and make rapid decisions when they grow or downsize. At the same time, business leaders want better tools to assess their employees for leadership potential, driven by the “arms race” for an executive pipeline in the light of boomer retirements and oft-decreasing skillsets in the marketplace.

The vendor world has to move fast to provide the functionality to accommodate these sophisticated and complex requirements, especially for global deployments. Vendors can either build software solutions from scratch, or acquire other companies that already have created products (and perhaps have already garnered market share with them). One strategy takes more time – lengthening time-to-market, and the latter requires the staff, strategy, and resources to integrate and support in light of existing customer demands and new prospects' requirements.

The Changing Market: Major Acquisitions

Acquisitions have vastly changed the human capital landscape in just the past year. Several primary trends have fostered acquisitions:

- The market dominance of Software-as-a-Service (SaaS) as the delivery method for talent management solutions;
- The need for the large enterprise resource planning systems (ERPs) to achieve a viable footing and market share in the SaaS HCM arena (as in the much-publicized acquisition of SuccessFactors by SAP and that of Taleo by Oracle);
- The continued requirement for total talent management integration, creating a broader or deeper suite of solutions in the core areas of performance management, talent acquisition and onboarding, compensation, learning and development, and succession;
- The desire to add another market segment (as in Cornerstone OnDemand's acquisition of Sonar6, which

targets a smaller company size than does the Cornerstone solution, or SumTotal's acquisition of Cybershift to add workforce management for hourly labor);

- The ability to capture an additional geography, as Oracle Taleo did with its 2011 acquisition of JobPartners, doubling its workforce and customer size in Europe;
- The addition of “value-add” software that expands the talent management vision with new functionality (such as SuccessFactor's acquisition of Jobs2Web and its integration of that company's recruiting marketing into the talent acquisition module), Oracle's acquisition of SelectMinds to add social sourcing to its Taleo recruiting solution, or Saba's acquisition of HumanConcepts to add an easy-to-use org chart-like view of teams and departments with underlying employee information; and,
- The ability to get a solution to market faster, as in the Ceridian acquisition of DayForce, an emerging solution catching hold in the management of hourly workforces.

Figure 1 summarizes the acquisitions by major human capital vendors in the last three years, adding new player IBM, and removing Taleo, Kenexa, SuccessFactors, and Sonar6 as independent providers:



Figure 1. Recent Major Acquisitions by Vendor.

The Changing Market Today: Effects on End Users

When the provider of a particular software solution gets acquired (big fish usually eating a smaller fish), customers often panic, many times unnecessarily (See Figure 2). But, there are clearly some outcomes that may cause issues for current users:

- *Staff attrition often ensues:* The account contacts for sales, service, administration and support may change as some employees in the acquired company may elect to leave, and some may be laid off.
- *Product roadmaps may be disrupted:* The acquiring company may already have a product that competes with one under development in the acquired company, disappointing customers awaiting a particular product or product feature. The acquirer may want to focus on integration rather than continuing the development plan (which could be more advantageous to at least some end users). If the acquirer bought the company for its installed base and wants to sunset the application totally, anticipated development on the product set is likely to cease entirely.
- *Products other than the core product of interest to the acquirer may be de-supported, or not further developed:* When the acquired company has several applications, the acquirer may have interest in only a subset or one of them – or only products on a certain architecture (for example, SaaS only, but not older on-premise products).
- *Integration doesn't work as planned:* Always a sticky wicket, integration generally is more complex and takes longer than both the acquirer and the acquired anticipate. The results may be “loosely integrated” products with a totally different look and feel, which do not meet the requirements of end users.
- *Users end up with a vendor they would not have chosen:* Often the acquirer is a vendor the end-user buyer rejected during a previous HCM purchase. The end users usually remember why they rejected that company in the past and often see no reason to trust that the acquisition will prove successful, at least for their company.

When a vendor grows through acquisition, the company often has different R&D groups working on different parts of the product. Buyers will need to know how these groups work together, how product management and quality assurance testing takes place and what the roadmap for integration looks like.

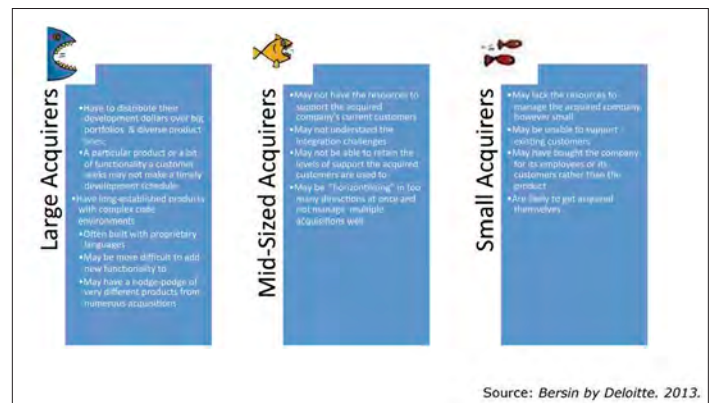


Figure 2. Acquisitions: The “Big Fish” Story.

Product Consolidation

Not only are the vendors consolidating, the products are as well. Bersin by Deloitte sees the current spend for integrated talent management software and services as exceeding US\$3 billion this year.¹ Because the concept has stemmed from the need for improved performance management, the goal-setting and performance review functionality is often the core of these suites. Performance management software alone is nearly US\$1 billion in spend.² Increasingly, software vendors have provided integrations between performance and the areas of talent management that most relate to it – learning and development, goal-setting, onboarding, hiring management, succession, compensation and workforce planning.

While vendors and products consolidate, new companies emerge every day, worldwide, that are creating HCM products. They may begin with one offering on the path to a fuller suite, or come out swingin' with an integrated talent suite, or even an integrated talent and HRIS system. These new products are almost universally created and deployed as SaaS.

As young companies get market attention or produce a new, interesting bit of technology, many become the “little fish” in Figure 2.

HR Technology Users: The Response to Shifting Sands

Throughout the recession, little budget was allotted to HR or talent management software. Because hiring was down and layoffs abounded, sourcing and talent acquisition solution providers, as well as recruiting agencies, felt the pinch. Little investment was made in performance management, assessments or learning.

Now the tide has turned. Bersin research demonstrates a growing investment in these areas of talent management, as shown in Figure 3. Here, growth in learning management (and related software and services), talent acquisition (recruiting software and related services) and performance management (which includes succession and compensation systems) are shown as reported by the vendors who provide integrated talent management suites that include these modules.

In addition to the vendors' view of growth in the HCM software market, our research looked at the buying intentions of HR users themselves. A study in the fall of 2012 revealed loosening purse strings and a readiness to both replace older applications and add brand new functionality.³

The volatility in the software market is driven, at least in part, by a desire to create the solutions that buyers want – integrated solutions that address their HCM business needs.

Integrated talent management suites are the most sought-after new application type over the next 18 months, as these buyers demonstrated a move away from stand-alone talent management solutions. According to the survey, recruiting or talent acquisition applications are more likely to be acquired as a standalone application than any other talent management solution, but even that popular area gleaned only 19 percent of buyers seeking a standalone ATS – far more (47 percent) are looking to deploy that functionality within a larger suite of applications.



Source: Bersin & Associates, 2012.

Figure 3. Year-over-Year Growth of Talent Management Segments within Suites.

Conclusions

The volatility in the software market is driven, at least in part, by a desire to create the solutions that buyers want – integrated solutions that address their HCM business needs. The “build it or buy it” decisions made by software manufacturers at each juncture revolve around the ability to get a new functionality to the buyer in the timeliest, most economical manner for their companies.

The challenge for them is understanding what the buyers want – and buyers are explicit in their requirements. A primary consideration in software purchases today is the ability to derive analytics that cross single-solution boundaries, thus deep integration is required. An acquired company's solution that is poorly integrated (sometimes called “loosely coupled”) not only impairs data collection, it is likely different in its look and feel – creating an unpleasant experience for the end user. And – like the old saying – “Up with this we will not put,” buyers are seeking a smoother-working environment through their software choices. In fact, improving the end user's experience is a foremost goal in HR software acquisition as many use employee acceptance as a measure of success – and acceptance is tied to elements such as ease-of-use and intuitive navigation.

The feeding frenzy of big fish eating up smaller fry will continue in the software market, however disconcerting it may be in the short-term for end users. In the long-term,

few catastrophes happen when a company is acquired by another. At the same time, recent software innovations have brought a new look and feel to HR software – making it easier to use and more end-user friendly, with social and mobile capabilities. The requirement for talent analytics has created the need for better embedded metrics, more sophisticated (yet easy-to-use) tools, and compelling dashboards. From “nice-to-haves” to “have-to-haves,” the need for better people management solutions, driven by the compelling issues facing HR professionals today, will overcome these worries. The sands may shift – but the users won’t sink.

Endnotes

1 Katherine Jones and Wendy Wang-Audia, Talent Management Systems 2013: Market Analysis, Trends and Provider Profiles, Bersin & Associates, November 2012. http://www.bersin.com/Lib/Rs/Show-Documents.aspx/112112_MB_TMS-2013_KJ_Final.pdf?docid=16083&ref=ml. To learn more, download a complimentary Bersin by Deloitte’s complimentary What-Works® brief.

2 Ibid.

3 Dr. Katherine Jones, Managing Talent through Technology: HCM Buying Trends in 2013, Bersin by Deloitte, April 2013.

About the Author



Dr. Katherine Jones is a researcher and senior manager covering HCM technology at Bersin by Deloitte, Deloitte Consulting LLP. She focuses on research on the underlying technologies and services that support the management of a global workforce, including HR, hiring and performance management, and workforce planning. Jones is a veteran in enterprise workforce and talent management applications and a recognized expert in cloud computing. Prior to joining Bersin by Deloitte, she was a research director at the Aberdeen Group for eight years where she established Aberdeen’s Human Capital Management practice, focusing on research and consulting services, and was later the director of Marketing for NetSuite, Inc., a cloud-based ERP company. She has written widely on many areas of talent management, technology and business practices, with over 300 works published to date. Prior to a high-technology career, Jones was a university dean, involved in academic administration, research, and teaching. Jones is a frequent speaker and is widely published in the U.S. and abroad. She has a master’s and doctorate from Cornell University. She can be reached at kathjones@deloitte.com.