HRO Landscape Brief for Mid-Market Companies

Executive Summary:

Almost every organization outsources part(s) of HR (human resources). From using 3rd parties to perform payroll, job recruiting through Monster, background checking or assessments, or benefits administration; an outsourced provider is using a combination of technology, people and processes to more effectively perform a transaction for the buying organization than can be efficiently done inhouse.

For HR and related workforce management solutions, technology has outpaced adoption (especially down market by SMBs and medium[1] sized businesses with 50 to 10,000 full-time W-2 employees). Today, the demand from consumers to have the same technology experiences at work as they do at home, along with the changing workforce dynamics, is driving the future of HR.

Technology has the capability to automate basic transactions and functions, and to support employees so that they can self-manage much of HR that was previously done by admins and HR staff. The result is that enabled organizations can focus on their core.

And for employers, today's solutions can deliver reduced cost structures such as:
- The deployment of self-service gives employees and managers direct access to a wealth of information and tools. Through employee self-service systems via intranets, employees can access the information and support to manage their own health benefits, 401(k) programs and day-to-day HR transactions.
- Providers handle processes that are not core to operations such as: benefits administration, payroll, assessments, workforce analytics, and recruitment-process outsourcing.
- Shared-services model for back-office functions: Every non-strategic HR function -- administrative support, research, document centers, benefits, billing and payroll, among others -- is taken out of the hands of internal employees and managers. This centralization reduces costs and allows front-line people to focus on higher-impact work.

Essentially, anything that is a transaction can be automated, standardized, and streamlined. With all of this electronic, self-service, outsourced and integrated HR, one might think that the human resources department is being marginalized, but actually, HR is becoming more critical, and more strategic as its professionals are freed to focus time and resources on critical business outcomes: a) workforce management, b) talent supply chain management, c) or workforce analytics specific to the business such as labor matching (job costing meets real-time scheduling and workforce planning).

Figure 2: Typical Savings by Process (2002–2006)

Application/ Business Process	Manual Cost	Self Service Application Costs	% Savings
Enroll in benefits	$30.06	$4.59	85%
Enroll in training	$9.58	$2.31	76%
Change home address	$1.58	$0.36	78%
Apply for a job	$11.55	$6.09	47%
Request salary change	$4.20	$1.53	64%
Approve promotion	$3.38	$0.87	74%
Create job requisition	$29.89	$9.36	69%

Source: CedarCrestone 2002–2006 ROI Studies

Aberdeen also provides such process savings information.[7]

So the question is, what is the current adoption, use, and utility of outsourcing today?

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[1] For the purposes of this report, mid-market refers to businesses with 50 to 10,000 full-time W-2 employees.
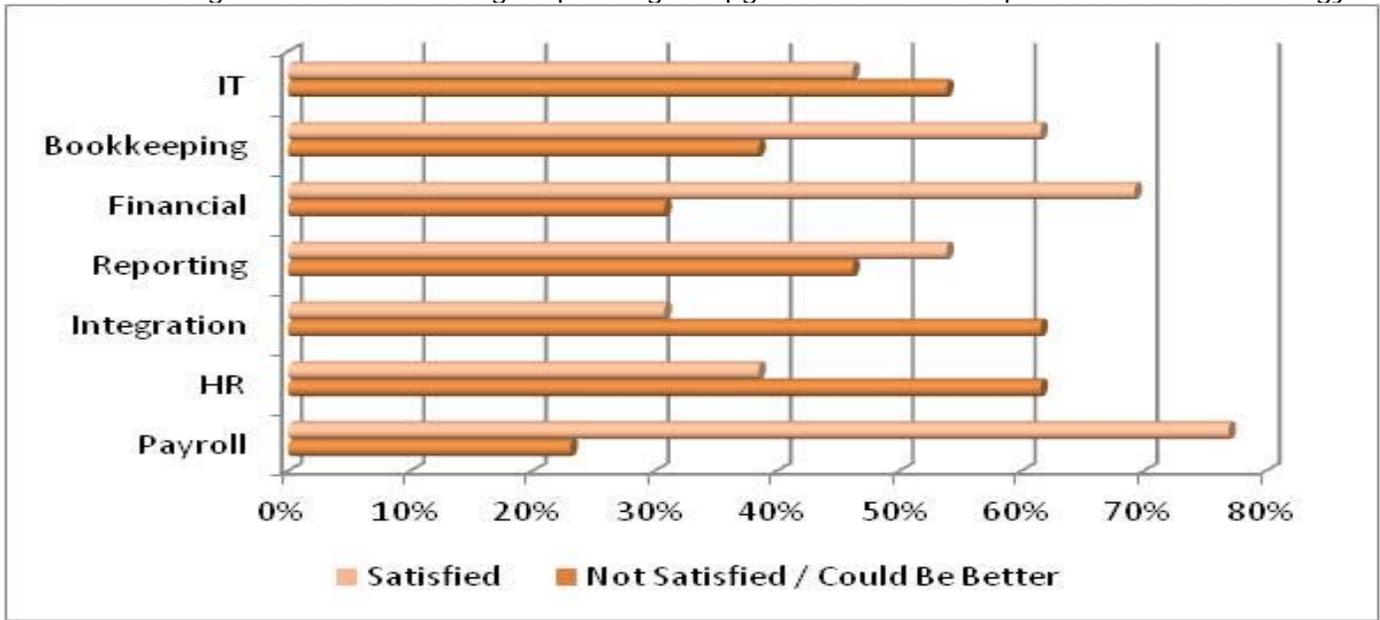
Current State of Mid-Market Outsourcing

Research from our quarterly research surveys finds that:
→ 1 in 5 enterprises are looking to implement a new solution.
→ 1 in 4 organizations have budget spending to upgrade their current processes and technology.

Where do end buyers turn to when the evaluate outsourcing?

Where buyers are seeking advice and information on outsourcing in this "double dip" climate

Q. How much will you be relying on the following sources for advice and information over the next six months as you evaluate your outsourcing strategies?
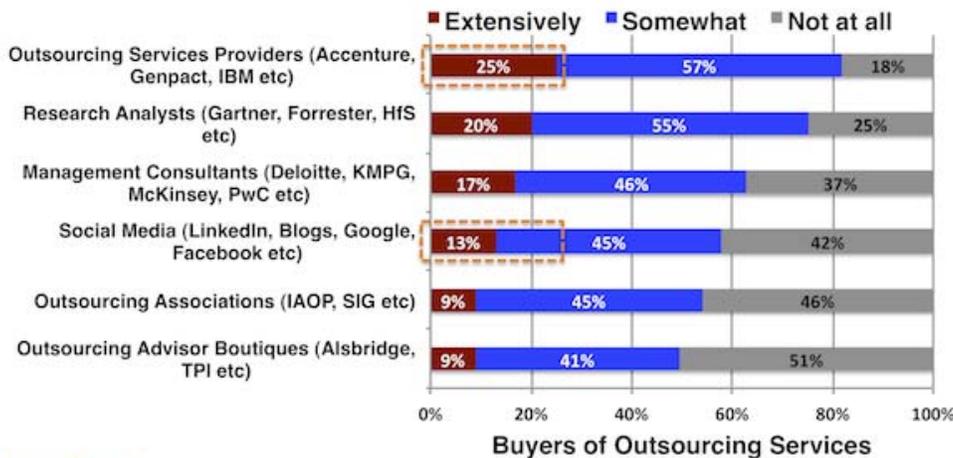
Source: HfS Research September 2011
Sample: 117 Buy-side Organizations

Strategies for Wealth Creation

Both outsourcing providers as well as software providers (trend towards SaaS), continue to enjoy attractive business model economics that recurring revenue businesses have inherently.

Market potential by number (#) of mid and enterprise class businesses[2].
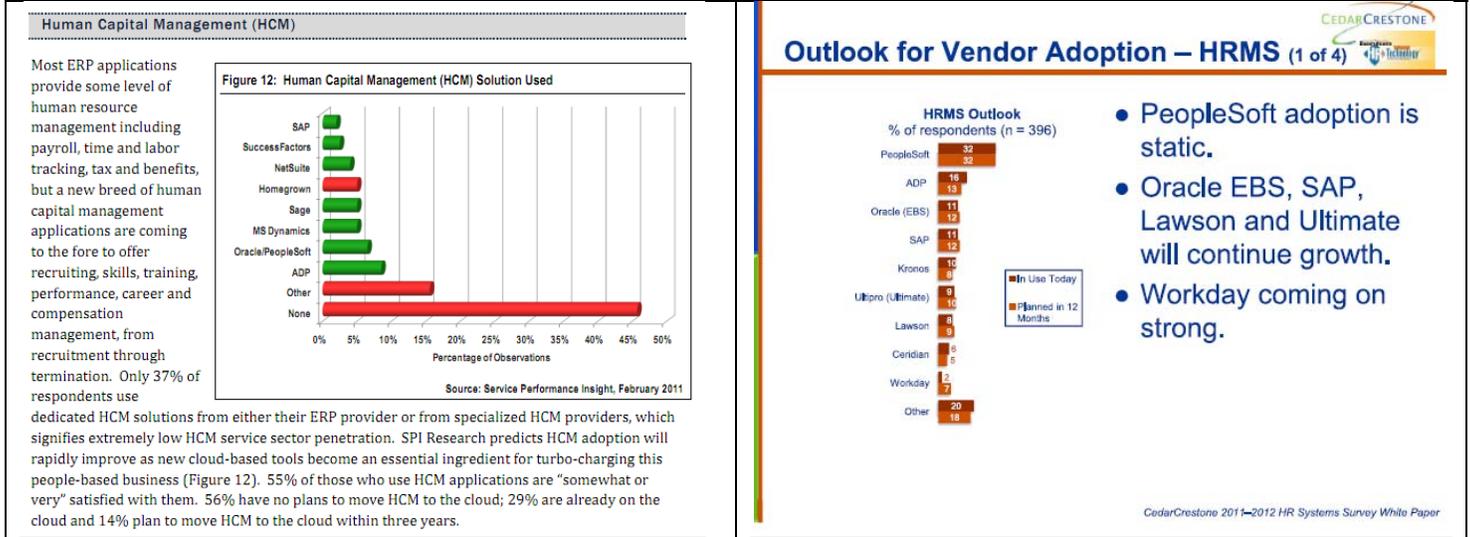
TARGET	USA	Americas Non-USA	India & Middle East	Asia	Europe
Enterprise	25,000	10,000	2,500	25,000	30,000
Mid-market	100,000	25,000	20,000	50,000	200,000
LinkedIn	65,000	25,000	10,000	25,000	15,000

While HR technology continues to evolve, the market landscape is littered with hundreds of players. Consolidation is occurring for financial reasons both by private equity as well as by vendors facing pressure (the move towards SaaS and the need for global distribution are two predominant drivers).

For regional or niche players the trend is to carve out and become known within a few select communities (i.e. segmentation and focus on a few communities: either industry verticals, Geo's, or segments).

Software Landscape:
The software landscape can be grouped into three (3) broad categories: Business Management Platform (ERP) or an HR Platform (Talent Management suite + core HRIS/HRMS) or simply an application that integrates into the aforementioned platforms.

Human Capital Management (HCM)

Most ERP applications provide some level of human resource management including payroll, time and labor tracking, tax and benefits, but a new breed of human capital management applications are coming to the fore to offer recruiting, skills, training, performance, career and compensation management, from recruitment through termination. Only 37% of respondents use dedicated HCM solutions from either their ERP provider or from specialized HCM providers, which signifies extremely low HCM service sector penetration. SPI Research predicts HCM adoption will rapidly improve as new cloud-based tools become an essential ingredient for turbo-charging this people-based business (Figure 12). 55% of those who use HCM applications are "somewhat or very" satisfied with them. 56% have no plans to move HCM to the cloud; 29% are already on the cloud and 14% plan to move HCM to the cloud within three years.

Figure 12: Human Capital Management (HCM) Solution Used

Source: Service Performance Insight, February 2011

Outlook for Vendor Adoption – HRMS (1 of 4)

- PeopleSoft adoption is static.
- Oracle EBS, SAP, Lawson and Ultimate will continue growth.
- Workday coming on strong.

CedarCrestone 2011–2012 HR Systems Survey White Paper

For larger enterprises, there is a short-list of software providers depending on whether a company opts for an ERP (business management system for enterprise resource planning), a core HRMS including the TM suite (talent management), and then adds-on "point specific solutions" to fit their unique needs.

For companies that have decided to outsource a process or function the market has consolidated from several hundred providers to a few dozen global providers.

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[2] Enterprises characterized by employers with greater than 10,000 full-time employees and mid (medium) sized businesses greater than 50 full-time w-2 employees.

Workforce HR Mid-Market Solution Provider Landscape:
While the market for larger enterprises, has consolidated to a few dozen major global players, the mid-market is highly fragmented. The following chart is an overview of available players for medium, middle-market enterprises in the United States in 2011 with meaningful revenues.

TYPE	PLAYERS
ERP Platform:	NetSuite, Microsoft, Zoho (SMB focused), Infor, Epicor, Intaact, Sage, Workday
HR Platform	SaaS[3] HRMS including TM: ADP, Ceridian, Kronos, Ultimate, Kenexa, Northgate Arinso, Patersons, Celergo, TalentSoft, HRAccess, Lemesse, P&I, Meta4, and SumTotal (Accerro + Cyborg + Softscape).
National Service Providers	Payroll: ADP, Ceridian, Intuit, Paychex, CompuPay, ExecuPay, TriCore, PayDay PEO: TriNet, Insperity, AccordHR, EmpowerHR, Emplicity, Odyssey ASO: Co-Advantage, Advantec, HRAmerica, VSManagement HR staffing firms: Addecco, Kelly, Manpower, HRQ, HumCap Recruitment Process Outsourcing: YOH, iRPO, AMN Healthcare, RPOworldwide, SelectIntl, The RightThing, HudsonRPO Background: Kroll, Hireright, Talentwise, ISP, Verifications Assessments: PSI,. P&I Worldwide, Profiles International, Batrus, RCI, Bigby Havis, Hogan, Skillsoft, SHL, DDI HRO: CorbanOneSource, ZeroChaos, Infosynch, Tag, AccessPointHR, Sheakley,. Qqest, IES, UnicornHRO, CPEhr
Software Providers to the Service Providers:	For Payroll: Evolution, Millenium, ExecuPay Benefits: Benetrac, Bswft, BenefitFocus For PEOs: Darwin, Evolution, Pyramid, ExecuPay, ISymmetry For Time: NetTime Legiant, Cybershift, InfoTronics, WorkforceSoftware, AttendanceonDemand, NovaTime For HRMS: SaaSHR, UltimateSoftware (UltiPro), Synchsource , 2Interact
Point Leaders:	Recruiting: Taleo, iCIMS, HodesIQ, Jobvite, NuView, BondTalent Performance: PeopleFluent, SuccessFactors, Hologen, Zeanne Jobs: LinkedIn, Monster, CareerBuilder Training: TRGI, BizLibrary, Covey, HRSG
Integration Firms:	For HR technology: OnesourceHR, Jeitosa Group Intl, Sability, HumanConcepts, CollectiveHRSolutions, RCM Technologies, Wise Consulting, Sibson, Towers, Talent2, PWC, Hackett, Pilat HR Solutions, HR Solutions Analysts: Knowledge Infusion, Bloom & Wallace, Bersin, Cedar Crestone, HRchitect
Common add-on solutions:	Assessments, Background Checks, Benefits, Recruiting, Staffing, Talent Management (*Onboarding, Offboarding, Recognition, Employer Branding, Compensation, Salary, Performance, Workforce*), Sales Performance Management, Compensation-Salary, Training (compliance, safety, leadership, skills, competency), and VMS (Vendor Management Systems).

There are numerous other regional providers and point specific solutions.

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[3] SaaS providers should be SaS 70 Type II certified.

For Buyers of HRO, HRMS, and TM:

For mid-sized businesses, choosing systems and apps based on usability is key to realizing value.   End-user businesses need to start with the desired business outcomes tied to the following:

1. Workforce Management (labor matching, scheduling, workforce planning, workforce analytics)
2. Talent Supply Chain Management
3. Competencies and Capabilities Development
4. Operational Efficiencies (Self-Service, TM Platform, Shared Services)

By focusing on one of the aforementioned business goals, and traditional HR can focus on job creation, and developing/maturing a perform-oriented culture. Said differently, when evaluating spending on an HRO or HRMS; it's best to invest in developing and improving capabilities and competencies for the organization that drive corporate and financial long-term assets.

Competitive Landscape

Ask providers for the following:

1. "Use Cases"
2. Vertical References
3. Product Roadmap[4]
4. Product Architecture

Three Types of Selection Criteria Provide Clues for Vendor Marketing Efforts Product Features and Integration Are Critical

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[4] Many are adding functionality and features such as: surveys, CRM, competency management, Expense and Spend management, project management, case management and shared services.

The Business Case for HRO for Solution Providers:

According to research, approximately 40% of senior c-level executives believe the value proposition of outsourcing is achievable or attained for their company. Approximately 10% of the market that is not already outsourcing is evaluating outsourcing a function. While buyers continue to be cautious, the percentage of companies using outsourcing is growing, and the scope and depth of the processes being outsourced is gradually increasing.

Overall, the market is characterized with global and national software leaders and supported by highly fragmented implementation service providers. While competition is prevalent, regional leaders continue to strengthen their standing in their local markets through expansion and acquisitions. BestInClass performers have Gross Margins > 70% but Net Income (EBITDA) is single digits or zero (< 10% have multiyear contracts). Less than < 10 % are using offshore.   The majority have started bundling and continue to bundle products and services, services and management and technology and services as the following chart illustrates.

Service	Payroll & tax	WFM	Benefits Admin	Benefits Procurement	HR Support	Total
HR Support					$90	$90
Benefits Brokerage				$285		$285
Benefit Administration			$75			$75
Benefit Reconciliation			$25			$25
Talent Management		$25				$25
HRIS & Reporting		$46				$46
Time & Labor		$24				$24
Reporting	$9					$9
W-2 / 1099 Processing	$1					$1
Cobra Administration	$3					$3
Garnishment	$2					$2
Payroll & Tax	$100					$100
Total Per Year Per Employee	$115	$95	$100	$285	$90	$685

	Current State		Growth Opportunity
Gross Margin	>75%	>75%	65%

Employment Life Cycle	Gross Profit
Recruiting	30%
Onboarding	55%
Staffing	25%
Talent Management	>75%
Payroll & WFM	**>75%**
Administrative Support	**65%**
HR support	>75%
Outplacement	80%

The future assumptions and growth drivers of the future of workforce HR technology indicated by the chart is that coupled with the right technology platform and localized to specific communities, that the HRO provider will command premium pricing, margins, and higher profitability.