



THE STATE OF THE HCM MARKET: 2018

ANALYST

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THE BOTTOM LINE

The market for technology in human capital management (HCM) continues to go through changes as new-guard vendors vie for market share against the old guard. Nucleus's analysis shows it's the new guard that's better-positioned to survive the next five years. They already offer, today, a unified, straightforward suite in a multitenant cloud—or are well on their way to doing do. By year 2023, vendors whose technology is lacking in these characteristics will have fallen by the wayside. Ultimately, users are the fuel for this inexorable march.

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OVERVIEW

Technology for HCM has come a long way since the bad old 1980s and 1990s, or even the new century's first decade—when sprawling, clunky, cobbled-together on-premises installations invaded organizations across industries—and sat, fat and happy, but incredibly difficult to operate and expensive to run. So vast and far-reaching were the effects of those deployments, that the industry today still wrestles with questions over just how and when on-premises systems and their consequences—e.g., poor integration, IT-heavy coordination and related costs, and lack of immediacy in the data—will finally fade into history. Nucleus's analysis of trends among users shows that the tipping point is finally around the corner. The toppling of the old normal neither has been nor will be precipitous, there is no going back: Cloud-based technology will be the centerpiece of HCM moving forward.

WHAT WAS INTERESTING IN 2017

Nucleus's analysis of users' experience this past year shows they're demanding more from vendors as more than ever before seriously consider consolidating to a single vendor offering a single suite of solutions for all or most of HCM. Many, in fact, have already made the switch. With their modern technology for HCM, new-guard vendors are best-positioned to meet these demands.

USHERING IN MODERN TECHNOLOGY FOR HCM

Modern technology for HCM is in a multitenant, public cloud—naturally, given all the financially measurable benefits of being so (Nucleus Research *r208 – Cloud now delivers 3.2 times more ROI*, December 2017). Furthermore, modern technology for HCM draws information from a consolidated data model underpinning a unified system. Rather than masking the absence of any, or all, of these characteristics, a well-designed user interface (UI) in modern technology for HCM translates them to a straightforward experience for users. The result is measurable return on investment (ROI) (Nucleus Research *r9 – Modern HCM tech delivers 2.9 times ROI for the SMB*, January 2017).

WINNING AND LOSING AMONG THE OLD GUARD

Some in the old guard have transformed themselves to join the new guard's ranks. Others are trying. Some won't succeed (Nucleus Research *r66 – WFM Technology Value Matrix 2017*, April 2017). Nucleus's research finds the race to consolidate is exerting intense downward pressure on any vendor's ability to best the competition.

WHAT TO LOOK FOR IN 2018

These factors are converging to shape the vendor landscape and the state of functionality and usability.

ADMITTING THAT CLOUD IS THE FUTURE IN HCM

Nucleus's analysis of end users in HCM finds a majority saying the cloud is where their future is. This is unsurprising. Nucleus's recent analysis shows that the cloud continues to yield a higher return (now 3.2 times) compared to on-premises solutions. Among users that still opt for on-premises solutions in HCM specifically, Nucleus's analysis finds that they do so not because of a lack of desire for cloud deployments, but because of some restriction. Among these restrictions are legalities or contractual labor obligations requiring that information be stored on-premises. Such dynamics are a hold-over from the early days of cloud computing, and Nucleus believes that as the cloud continues to mature and improve its

reputation for solid security, these contractual stipulations will eventually disappear from regulatory rules and unions' negotiating positions.

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ESCAPING COBBLED-TOGETHER MULTI-VENDOR SYSTEMS

Loosely connected to their migration to the cloud—and as mentioned above—most plan to move away from multiple vendors to seek most or all of HCM from one. In most case studies Nucleus published in 2017, consolidation helped to deliver ROI not only by controlling costs, but also by driving gains in productivity for employees that saw manual tasks all but eliminated by automation that multiple systems could not facilitate. Users also noted their employees have responded positively to single-suite solutions that enable them to track and manage their pay and benefits through simplified employee self-service (ESS)—another major source of productivity gains.

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KRONOS AND ADP

The focus is on ADP and Kronos. Two longstanding market leaders in the HCM field, these two vendors have struggled to adapt to the changing demands of customers' needs. This has been particularly true, in varying degrees, when it comes to cloud deployments—which Nucleus's analysis shows deliver strong results for customers.

- Electing for years to keep this functionality on the mainframe, ADP has resisted developing cloud payroll. Finally, in late 2017, the vendor announced development program for it, but Nucleus doubts the solution will be available anytime soon and wonders whether the delay will hurt ADP (Nucleus Research *r193 – ADP races continental drift to cloud payroll*, November 2017).
- In early November 2017, Kronos launched Workforce Dimensions. To its credit, the vendor is already deploying the technology, a new public cloud-based WFM. This should begin to mitigate questions over the branded Kronos Cloud, which, Nucleus's analysis finds, isn't all in a multitenant cloud (Nucleus Research *p208 – Kronos Cloud versus modern HCM tech*, November 2015).

While both ADP and Kronos have large customer bases that will sustain them for the foreseeable future, Nucleus has spoken to a growing number of users who have elected to retire an ADP or Kronos deployment or chosen a different vendor over either of these two companies. Among their reasons are these two vendors' apparent inability to accommodate necessary or desired technical customization, as well as poor customer service. Many users noted that there appears to be slowness or tone-deafness in listening to and meeting their needs, with these two vendors instead trying to mold the user to fit the capabilities of their products.

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WORKDAY

Nucleus believes that Workday is in a race against time to become a true juggernaut before its users figure out the company's technology falls short of the competition's. Workday will win and may yet be able to call itself the next Salesforce, but at what price? An ultimately discouraged customer base is hardly a winning PR story. Nucleus's analysis finds that the vendor's technology for payroll is basic and, for time and attendance, thin. There are no apparent plans for advanced scheduling, either (Nucleus Research *r146 – Separating the walk from the talk with Workday*, July 2017). At the epicenter of HCM, these holes in Workday's arsenal, especially, place the company at a disadvantage in deals against what Nucleus sees as two of its stiffest competitors, Ultimate Software and Ceridian (with Dayforce). Against Oracle, too, Workday's solution should be an obstacle to new business, Nucleus's analysis shows (Nucleus Research *q166 – Guidebook – Oracle HR and finance connected*, August 2016).

LOOKING AHEAD TO 2023

All of this and more is setting the stage for several developments that will have become the new normal by 2023.

SEEKING DUALITY IN WFM: MILE-DEEP SCHEDULING

Even as the march to consolidate continues, smart vendors of full suites for HCM have conceded a duality in aspects of WFM: At the epicenter of HCM—where payroll, scheduling and other essentials of employing people reside—the sophistication of their technology is a limiting factor in their ability to win new business. Yet there are factors that limit their ability to be broad and deep simultaneously, in all ways. By 2023, this reality will be impossible to ignore.

In mid-2017, for instance, Ultimate Software launched new functionality that enables the vendor to cease white-labeling Infor-originating technology in deployments featuring exceptionally complex scheduling requirements (Nucleus Research *r74 – At Connections 2017 Ultimate Software shares latest*, April 2017). Still, cool heads among product development leaders industrywide accept the reality: It is neither cost-effective nor otherwise practical for vendors to be all things to all potential users.

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A prime example of vendors accepting their limitations is WorkForce Software. The vendor has a highly successful partnership with SAP SuccessFactors to shore up the latter's shortcomings in scheduling in deployments that call for it (Nucleus Research *r66 – WFM Technology Value Matrix 2017*, April 2017). Nucleus's analysis shows the ROI warrants such deployments (Nucleus Software *r203 – WorkForce Software ROI case study – ATS Automated Tooling*, December 2017).

BECOMING SHARP SOLUTIONS IN TALENT MANAGEMENT

Customers aren't looking for all of talent management from a separate provider anymore. For several years now, Nucleus has analyzed the phenomenon (Nucleus Research *p153 – Technology Value Matrix 2015 – Talent Management*, September 2015). To survive over the next five years, vendors solely in talent management must reimagine best-of-breed point solutions as sharp solutions—like a knife cutting across more than one silo of functionality (Nucleus Research *r184 – Talent Management Technology Value Matrix 2017*, October 2017). Nucleus's analysis suggests this is more than marketing-related sleight-of-hand. Vendors' ability to go beyond point solutions to become sharp solutions is a result of advancements in the consolidation of technological data models and these advancements' heirs: the maturity of data analytics and evolution of automation.

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An example is Saba Software's fusing of performance management and on-the-job learning. These two aspects of talent management make sense to combine, and each is readily capable of delivering ROI on its own, Nucleus's analysis shows (Nucleus Research *r97 – Value in HCM ripples from the epicenter outward*, May 2017).

Elsewhere, vendors are proposing onboarding as end-to-end, hire-to-retain functionality not only for hiring, but also for employee transitioning (e.g., promotions). Here, SilkRoad is an example (Nucleus Research *r200 – SilkRoad positions itself to evolve and thrive*, November 2017).

FUTURE-THINKING THE HOLY GRAIL OF CONSOLIDATION

Nucleus sees the trend to consolidate in HCM as inspiration anew for the ultimate consolidation: a straightforward single-vendor suite for most or the entirety of an organization's technology needs. With payroll's natural need to align with the general ledger (GL), HCM is a potentially ROI-rich place to establish a lasting, impenetrable beachhead to reach such a goal (Nucleus Research *r6 – An enterprise ROI hockey stick in Oracle HCM*, January 2017).

Nucleus acknowledges that this end goal has long been a topic of conversation in industry circles and remains a long way off. But with today's technology the finish line is potentially reachable, whereas a decade ago the idea was but an abstraction, more of a pipe dream. Meanwhile, plenty of single vendors have long offered technology for the enterprise's full gamut. SAP, Oracle, and Infor are the three most notable. However, today's technological landscape—with its advancements in data consolidation and simplification and standardization of software delivery—stands in stark contrast to that of the past. These three vendors now face an opportunity to build a wide moat around their deployments, which their solely HCM-focused competitors would find tough to cross.

THE VICE GRIP OF ON-PREMISES OLD-THINK

Their progress in getting there, to one workable suite for the entire enterprise, will hinge largely on their ability to retire their on-premises-based solutions and migrate as many of those customers as possible to a multitenant cloud. This bears on SAP, which lags Oracle and Infor in providing an understandable enterprise-wide path to the cloud. In the past two years, as SAP touted that all new HCM-related deployments were fully in the cloud (via SuccessFactors), the vendor announced that it would provide support to users of its on-premises HCM solutions early into the next decade—not too far away. The inference was that after that, customers would finally have to leave the premises or face consequences. Yet, in early 2018, the vendor announced it has a new on-premises HCM solution in the works and will support on-premises customers through the year 2030. More than a decade away, that scenario will surely be an anachronism.

FANNING THE TALENT MANAGEMENT FIRE SALE

Nucleus believes in five years the market will look back in awe at the fire sale in talent management. This year, it will become clear to everyone in the market that talent management as a full-suite standalone option is no longer necessary, and over the next few years vendors will find that “bought or be bought” will be on everyone’s mind. This will be particularly so for the second tier and me-too vendors that must change their business models or be gobbled up by larger vendors.

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Why? With technology for talent management, the ROI is there, but the value is not as straightforward to unearth as it is in payroll, time and attendance, or other central functionality for HCM (Nucleus Research *r97 – Value in HCM ripples from the epicenter outward*, May 2017). Most customers will opt, therefore, to obtain talent management from their HCM providers and bolt on new best-of-breed sharp solutions that in sophisticated ways unify separate conventional silos in talent management—for example, performance management and learning or onboarding.

CONCLUSION

Vendors of new-guard point solutions that present themselves as such are thriving at the expense of old-guard players that cannot. But they’re operating in a side show that’s second fiddle to the main attraction—employers increasingly favoring one suite in the cloud for everything in HCM.

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So many realities five years from now stem from these realities today, and the vendor landscape in talent management and among slow-to-evolve legacy full HCM players has the potential to be unrecognizable by the year 2023. Survivors are today already sidelining on-premises solutions, reserving them solely for special scenarios by request only. Nucleus’s analysis all but guarantees that, five years from now, modern technology for HCM will be the only option worth considering.