

# HCM Service Provider Partners Market Overview

## Summary Market Overview

February 2020

Growing equity, realizing value



# HCM Market Overview

## HCM Market Segment Descriptions

### HR BPO

- Outsourcing responsibility for the management/ administration of HR processes to a third party where most of the process management is transferred to the provider
- HR BPO activities include managing employee/manager portal, administration of recruitment, payroll and benefits and vendor management

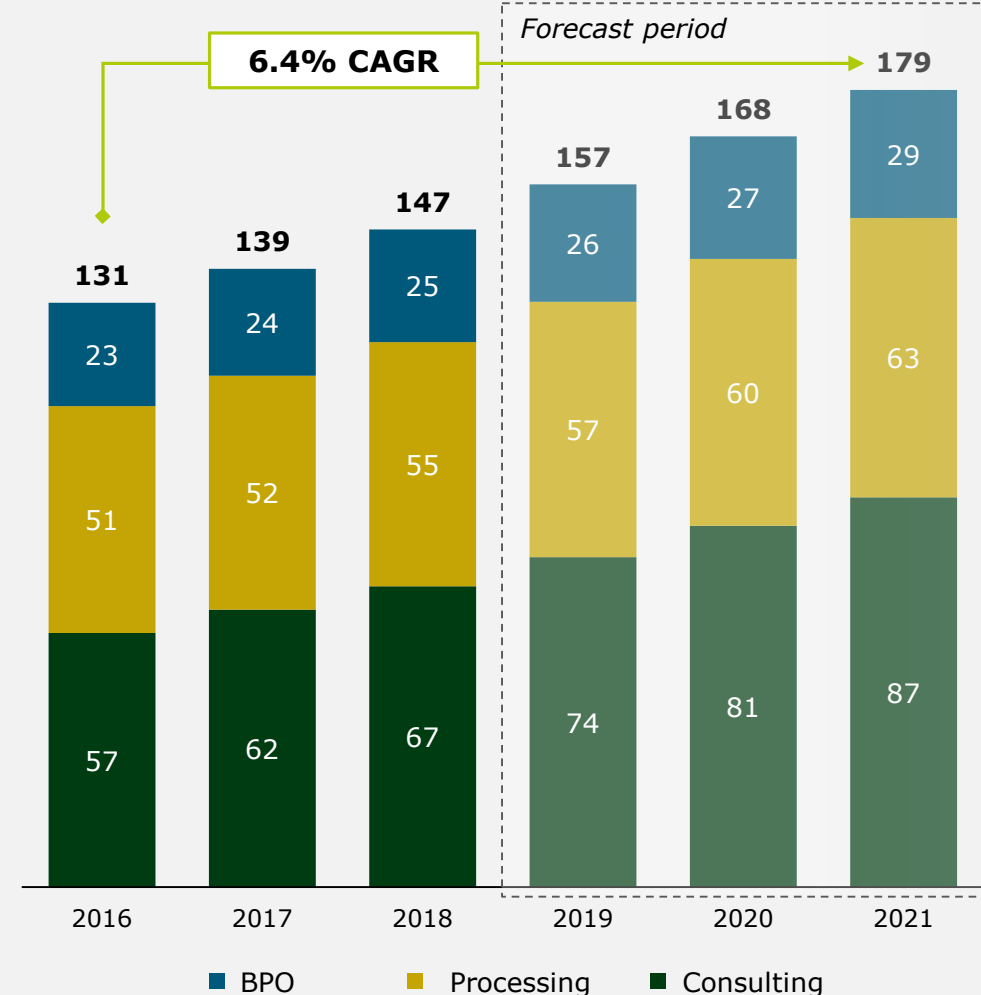
### HR Processing

- Processing services include volume-based HR transaction processes such as payroll or benefits administration
- Processing services deal with the execution of a process but not with the transfer of management responsibility for that process to an external vendor

### HR Consulting

- Human resources consulting services focus on the human dimension of business transformation
- These services focus on organisation-wide HR strategy and helping executives align organisational goals with the right communication, systems and processes

## Global HCM Market by Segment (\$bn)



# Underlying Market Drivers

## Lever

## Data



**Global Talent Shortage**

- The ongoing global skills shortage and supply/demand imbalance poses a significant challenge to companies with over 45% global employers unable to fill outstanding roles
- Finding, skilling retaining talent is becoming a major issue for HR functions and 65% of companies believe talent shortage is impacting business transformation strategy



**Aging Workforce Composition**

- Millennials now constitute a much larger portion of the workforce, causing a shift in career preference and contributing to the rise of the gig economy
- The labor force is increasingly opting for workplace flexibility and work-life balance over remuneration requiring organisations to re-think hiring strategy



**Digital Disruption**

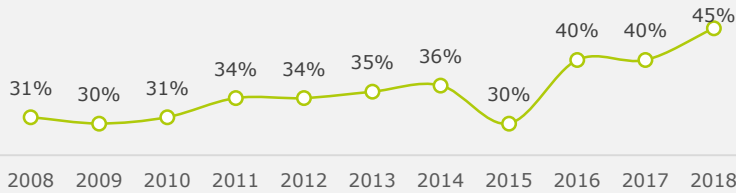
- Increased automation and digital technologies are acting as enablers and catalysts of disruption and creating new opportunities and challenges for organizations and HR functions, in particular the emergence of AI and machine learning
- Jobs are becoming automated creating new roles requiring new skills which are difficult to fill



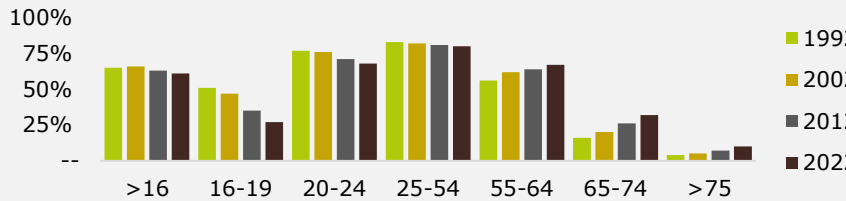
**Focus on Employee Experience**

- Employee experience is critical not only for the HR department but for the entire organization, driving HCM service providers to focus on providing employee engagement solutions
- HR function priority has moved from cost reduction to employee experience enhancement to retain talent

**Talent shortage over time**

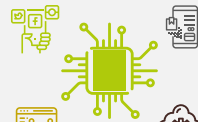


**% of population bracket working**



**Age category (years)**

**Social media:** c.25% of world population uses social media, spending >15 hours a month



**Mobility:** 6.8 billion people have access to mobile phone

**Analytics:** more digital data generated than ever before

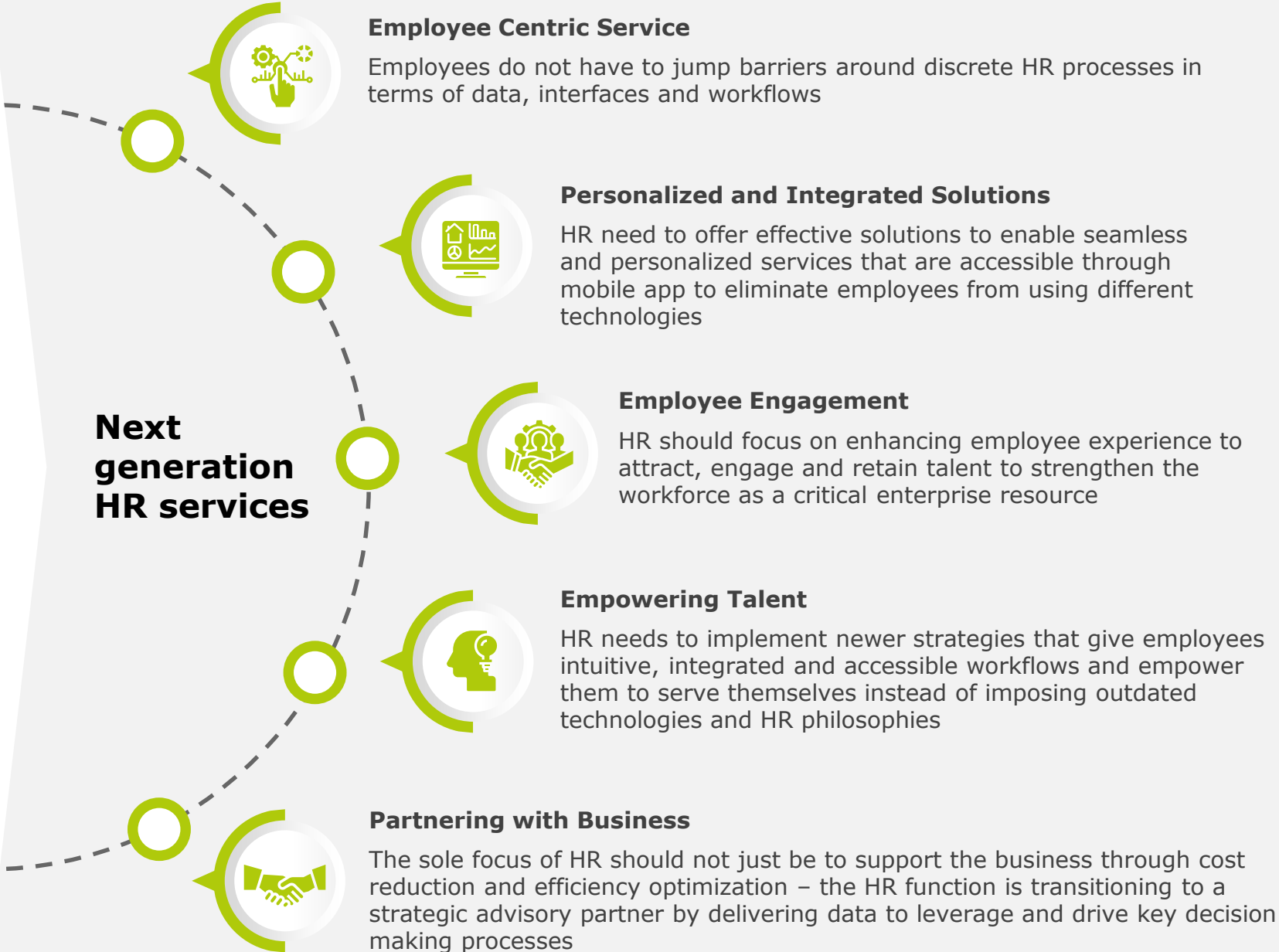


**Cloud:** in 2017, 35% of all data is stored in the cloud

**Benefits of high employee engagement**

- 2.5x** greater revenue growth
- 62%** less accidents
- 50%** less absence days
- 40%** less employee turnover
- 12%** higher customer advocacy
- 2x** annual net income
- 18%** higher productivity
- 24%** net promoter score







# Evolution of HCM



Sources: Forrester, Gartner

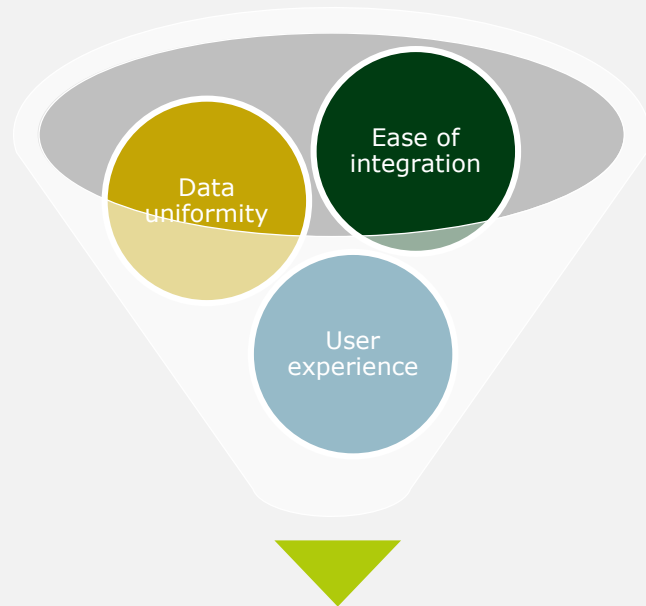
# Benefits of HCM Analytics

Advanced analytics solutions can produce strategic inputs not only on an as-is state of business but also through predictive and prescriptive analytics, typically presented as intuitive data that can be used to produce deeper insights

	Workforce Planning	Talent Acquisition	Retention	Employee Satisfaction	Learning	Performance Management
Prevalence						
Efficiency Metrics	<ul style="list-style-type: none"> <li>Employee productivity</li> <li>Absenteeism</li> </ul>	<ul style="list-style-type: none"> <li>Hiring lead-time</li> <li>Cost per hire</li> <li>Resource requirement per hire</li> </ul>	<ul style="list-style-type: none"> <li>Employee attrition</li> <li>Turnaround rate</li> <li>Performance-attrition analysis</li> </ul>	<ul style="list-style-type: none"> <li>Satisfaction surveys</li> <li>Net-promoter scores</li> <li>Sentiment analysis</li> </ul>	<ul style="list-style-type: none"> <li>Training uptake</li> <li>Cost of L&amp;D</li> <li>E-learning adoption rate</li> </ul>	<ul style="list-style-type: none"> <li>Timing and efficiency of appraisal</li> <li>Feedback impact analysis</li> </ul>
Effectiveness Measures	<ul style="list-style-type: none"> <li>Skill gap analysis</li> <li>Resource analysis</li> </ul>	<ul style="list-style-type: none"> <li>New hire failure rate</li> <li>New joiner quality</li> <li>Lead time to productivity</li> </ul>	<ul style="list-style-type: none"> <li>Analysis of drivers behind voluntary/involuntary separation</li> </ul>	<ul style="list-style-type: none"> <li>Compensation benchmarking</li> <li>Remuneration satisfaction rate</li> <li>Reward-performance</li> <li>Employee engagement</li> </ul>	<ul style="list-style-type: none"> <li>Effectiveness of training</li> <li>Self-training initiatives</li> <li>Upskilling success analysis</li> </ul>	<ul style="list-style-type: none"> <li>Appraisal satisfaction metrics</li> <li>Improvement analysis</li> </ul>
Strategic Benefit Metrics	<ul style="list-style-type: none"> <li>Aging workforce and ways to address the issue</li> <li>Managing workplace absenteeism</li> <li>Supply/demand workforce projection</li> <li>Career planning projection for optimal succession planning</li> </ul>	<ul style="list-style-type: none"> <li>Predicting requisition aging</li> <li>Assigning application fitment score by analyzing CV</li> <li>Assessing new-hire attrition probability and performance</li> <li>Addressing new hire productivity through learning initiatives</li> </ul>	<ul style="list-style-type: none"> <li>Attrition-profitability correlation analysis</li> <li>Leaver probability assessment</li> <li>Reduction of future attrition through data-driven hiring decisions</li> </ul>	<ul style="list-style-type: none"> <li>Preventable retention addressed through targeted learning programs or increased benefits</li> <li>Leveraging structured and unstructured data to create, improve or re-design initiatives to deliver robust business insights</li> </ul>	<ul style="list-style-type: none"> <li>Targeted training to reduce errors</li> <li>Training initiatives driven by insights and performance scores</li> <li>Analysis of correlation between participation and business performance</li> </ul>	<ul style="list-style-type: none"> <li>Profiling of promotions</li> <li>Planning for succession</li> <li>Top performer identification and fast track for leadership roles</li> </ul>

# Key HCM Software Market Trends

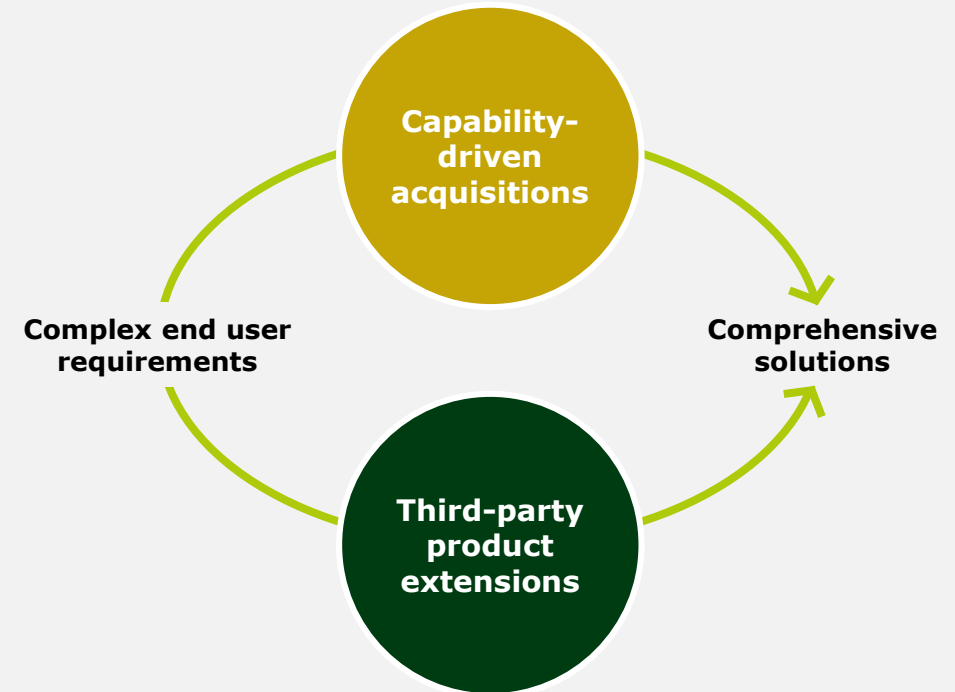
End user preferences have driven vendors to develop software solutions covering the entirety of the HCM cycle...



**Demand for broad software suites**

... but users with advanced requirements will still integrate modules from other vendors, for example those that cater to industry-specific needs...

...these high expectations have led vendors to seek alternative ways of developing specific expertise...



... increasing the need for vendor partners to assist companies in optimizing their use of the evolving software landscape

# HCM Delivery Model Ecosystem

## HCM Software Vendor-Partner Relationship Drivers

As with other highly competitive software markets, partners provide an important route to market for the vendors

Vendor partners provide a third-party source of innovation, such as specialist software vendors

Services partners can also provide an indirect form of innovation for vendors that provide customizable PaaS software that allows users to create bespoke modules

Data privacy law and payment technological complexity has led to payroll provision being heavily outsourced to partners

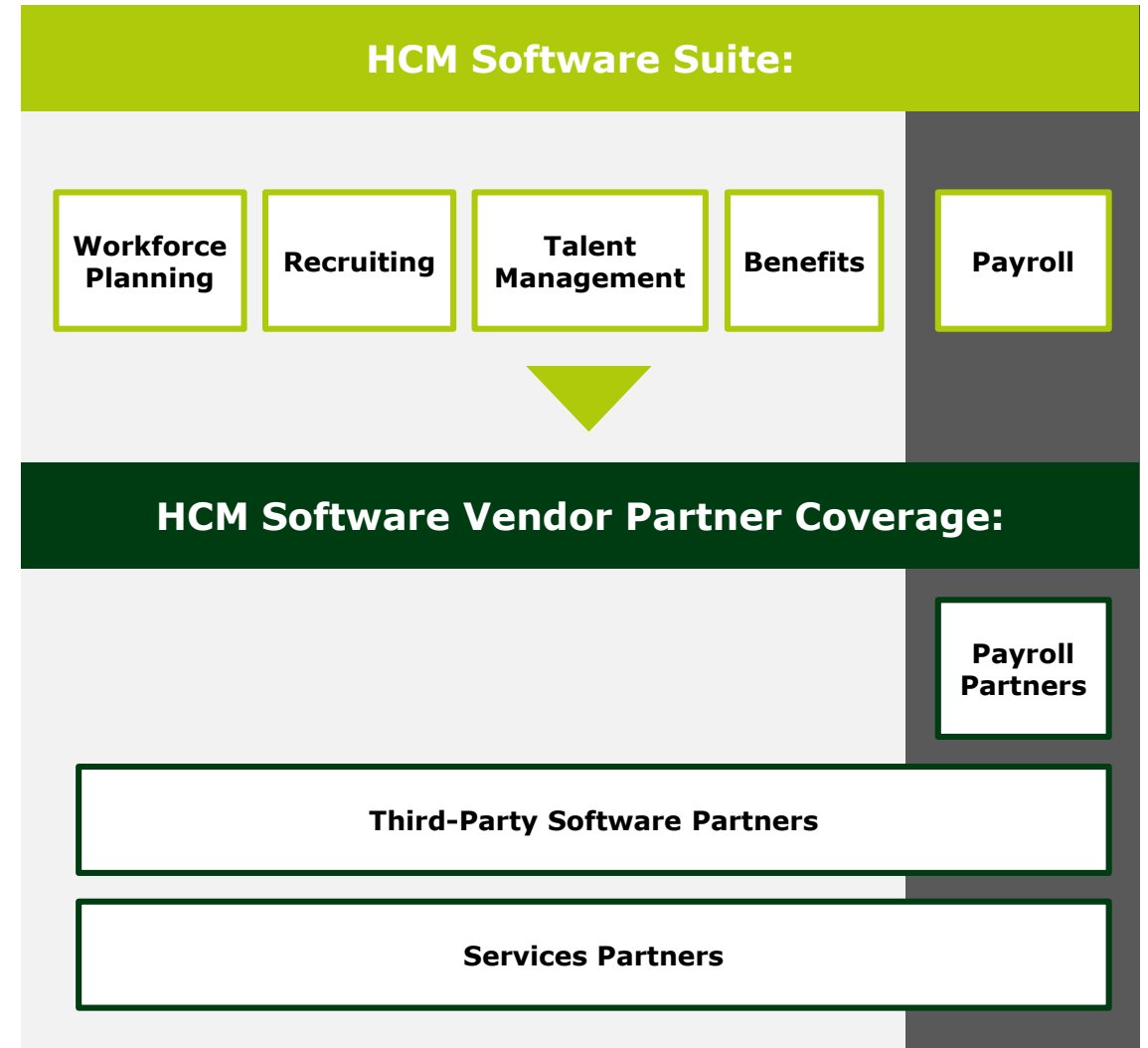
In order to provide increasing value to clients, services partners are delivering analytical consultancy to end users, leveraging those HCM software packages that produce adequate contemporary data

As the HCM software market has grown rapidly in recent years, service partners are often newer, smaller-scale companies seeking to develop a competitive advantage in a fragmented sector

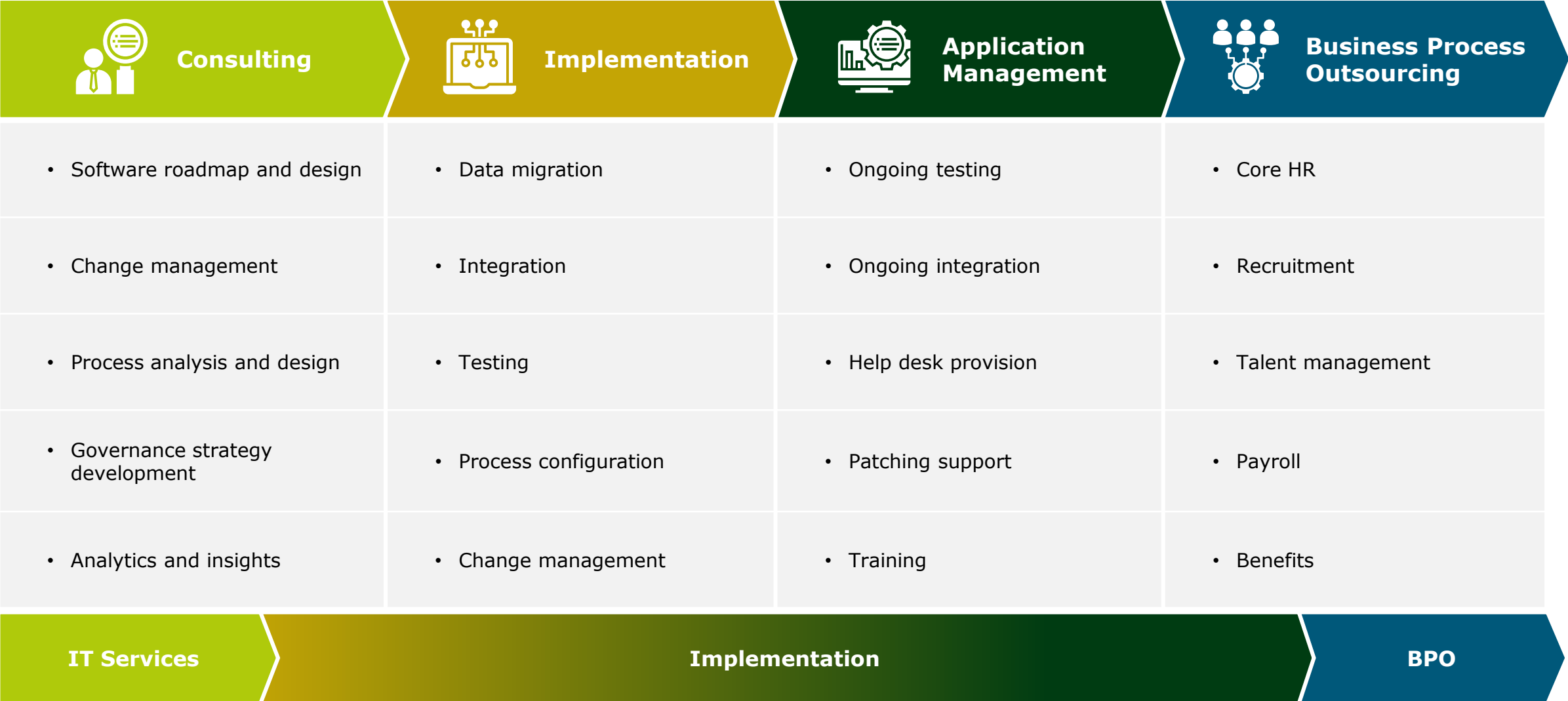
Service partners, like third-party software partners, cover the entirety of the HCM software suite spectrum

These partners can provide a variety of functions, primarily implementation, integration and application management

Vendor-specialized partners also seek to perform higher-margin strategic advisory work for HCM software-related decisions



# HCM Services Partners Value Chain





# HCM Software Vendor Partners – Competitor Overview

## Professional Services Providers

Large professional services providers have global scale and sophisticated services capability to deliver new, complex HR solutions and the associated change management

**Accenture**      **Deloitte**      **KPMG**  
**pwc**                      HURON

## HR Consultancies

HR consultancies have the capability to offer an outsourced function that can operate alongside vendor technologies that they are highly familiar with and provide expertise that more generic providers cannot match

KORN FERRY      **AON**      MERCER

## Technology Consultancies

Global technology consultancies are able to combine their various capabilities in implementing, integrating and managing new HR software packages at a large scale

Capgemini      **IBM**      **tieto**  
**DXC.technology**      **HEXAWARE**

## Specialist HCM Partners

Specialist HCM partners will often focus on a single technology or range of technologies and leverage their expertise to optimise end user experience

AXSIUM      COREHCM      **alight**  
**aasonn**<sup>™</sup>      COVALENCE  
A Rizing Company      CONSULTING INC.

# HCM Software Vendor Partners – Competitor Overview

## Capability-Driven Acquisitions

Vendor coverage and analytics capabilities both present an attractive rationale for cash-rich or sponsor-backed incumbents to provide a more comprehensive set of services to clients

May 2019

**alight**  
wipro  
Workday Services

January 2019

**ATKearney**  
Cervello

October 2018

**COLLABORATIVE SOLUTIONS**  
Theory of Mind

## Financial Sponsorship

For many software vendor partners, particularly those of newer vendors such as Workday, there are a number of smaller 'boutique' firms competing in a fast growing market that is attractive for investors

May 2019

LIGHTYEAR  
**ENGAGE**  
P E O

May 2019

**AKKR**  
ACCEL-KKR  
SAFEGUARD  
GLOBAL

June 2018

**OMERS**  
CAPITAL  
alexander mann  
solutions

## Historic Consolidation

Despite the relative nascence of the sector, there have already been several transactions in the market which have involved consolidation, with large professional services firms often making the acquisitions

November 2016

**accenture**  
DayNine

October 2012

**alight**  
OmniPOINT  
STAFFING

March 2012

**Deloitte**  
AGGRESSOR

## Vertical Integration

The trend of vertical integration is a feature of inbound M&A in the HCM software vendor partner sector; software vendors trade at higher EV/EBITDA multiples, making services acquisitions economically feasible

October 2019

KRONOS  
Optimum Solutions  
empowering business with technology

July 2019

**toast**  
stratex

January 2019

**ASURE**  
SOFTWARE  
**Payroll MAXX**  
SM

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