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Building a Winning Business Case for HCM SaaS
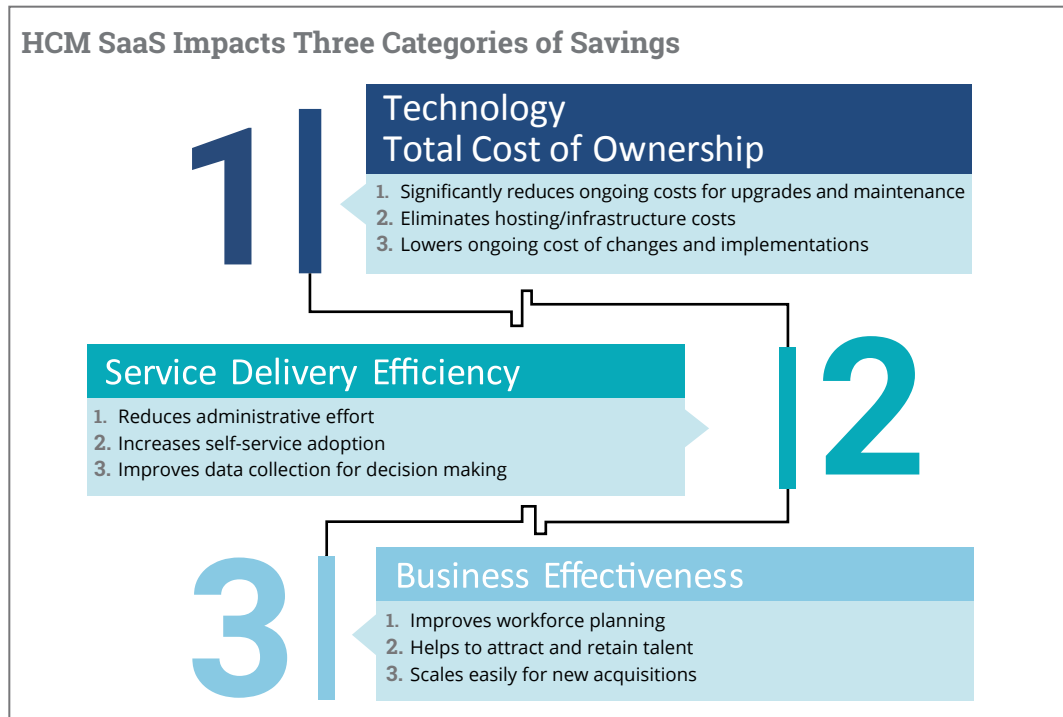
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The number of enterprises that experience success with Human Capital Management (HCM) Software-as-a-Service (SaaS) technologies is growing every day. Human Resource (HR) practitioners that have been using traditional enterprise resource planning (ERP) platforms and are looking to improve their HR systems are paying particularly close attention to these success stories.

While the improved functionality of these SaaS solutions is attractive to many, the cost of transitioning to this new software environment is typically the biggest obstacle on the road to adoption. Premium functionality is often accompanied by premium pricing – usually higher than the cost of maintaining a traditional ERP software environment.

This white paper explores the elements – both quantifiable savings and quantifiable improvement to the business – that are necessary to consider in building a business case for moving to a new HCM SaaS. Though it may be difficult to quantify, the value of these improvements – including increased retention of top employees and reduced time to integrate new acquisitions – cannot be underestimated.

BENEFITS OF HCM SAAS

Many SaaS solutions have demonstrated flexibility, usability and functionality that impact cost and performance. The benefits of HCM SaaS solutions generally fall into three major categories, as shown below:

HCM SaaS Impacts Three Categories of Savings

1

Technology
Total Cost of Ownership
1. Significantly reduces ongoing costs for upgrades and maintenance
2. Eliminates hosting/infrastructure costs
3. Lowers ongoing cost of changes and implementations

2

Service Delivery Efficiency
1. Reduces administrative effort
2. Increases self-service adoption
3. Improves data collection for decision making

3

Business Effectiveness
1. Improves workforce planning
2. Helps to attract and retain talent
3. Scales easily for new acquisitions

BASE-CASE FOUNDATION

The first step in developing a multi-year projection for an anticipated HCM SaaS environment is establishing a solid foundation of current costs. This foundation is better known as the base case and is an all-encompassing view of both internal and external costs associated with supporting the current HR technology and service delivery environment. Since the base case serves as the benchmark for comparison to the future-state environment, it is critically important to make sure it is both accurate and comprehensive. While some costs, such as disaster recovery/business continuity (DR/BC) or data security, may not be visible in broad IT allocations, they are part of the overall service in SaaS and should be accounted for to ensure a fair comparison.

The base case should include the following cost categories:

1. **Direct Staff (HR Service Delivery Efficiency):** This category includes resources that play a direct role in delivering the in-scope HR services to the organization. A time allocation for each HR and non-HR employee that spends time on the in-scope service areas will help identify opportunities for efficiencies when developing the business case.

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2. **Indirect Staff (HR Service Delivery Efficiency and Technology Total Cost of Ownership):** This category captures any field or IT support for the current technology platform and service delivery model, including IT resources that are not part of the HR organization but who support the current system environment, including developers, database administrators, security personnel and application administrators. This also includes employees in field locations outside of HR who provide some level of HR service delivery support.

3. **Systems & Infrastructure (Technology Total Cost of Ownership):** This category is especially important in an HCM SaaS analysis as it includes the expense for the current ERP software and infrastructure environment the company uses to provide HR services to the employee population. SaaS subscription services that include hosting infrastructure, software licenses/maintenance and future upgrades and enhancements can offer significant cost reduction or avoidance. Depending on the structure of the current environment, current costs may be captured in the following areas:

- A traditional on-premises ERP requires identifying the cost for the ERP software as well as costs for the associated infrastructure in which the software runs (e.g. servers, network, databases, DR/BC, monitoring, and security).

- An existing SaaS environment requires identifying the annual subscription fee from the service provider, including costs for both the software and infrastructure environment.

- Other HR-related system expenses that might be captured in a business unit that HR/IT doesn't typically have visibility into, such as a learning platform in a legal business unit).

4. **Third-Party Vendors (HR Service Delivery Efficiency and Technology Total Cost of Ownership):** It is important to capture accurately expenses for all external providers providing support for the current technology and service delivery environment, in case there is consolidation of services under the unified HCM SaaS umbrella. A company that currently uses multiple "bolt-on" software solutions like MS Access databases and MS Excel spreadsheets, for example, will be able to avoid these additional software components with the functionality in the HCM SaaS solution.

BUSINESS CASE: QUANTIFIABLE SAVINGS (HARD DOLLAR)

At first glance, the price attached to an HCM SaaS environment may seem much higher than the cost of the current system environment. But a move to a new HCM SaaS environment can bring quantifiable savings for technology total cost of ownership and efficiency for HR systems in each of the four base-case cost categories.

Direct Staff

HR leaders developing the business case need to evaluate each in-scope role to determine if they can create efficiencies and excess capacity in the ways they allocate employee time. Below are a few areas to consider:

1. **Automation:** With the wider application of automation typically found in an HCM SaaS solution, HR practitioners find they are able to complete administrative tasks more quickly, spending less time with manual data entry, data reconciliation/auditing and error correction. The integration of service areas within the SaaS system reduces duplication in data entry. Automated auditing means employees spend less time tracking changes in the system, and the enhanced workflows and system alerts result in fewer errors than in the traditional ERP environment and quicker identification of those that do occur. In short, the new system allows HR employees to be more efficient and effective in their roles.

2. **Reporting Functionality:** In a traditional ERP environment, generating a report can be a complicated, multi-step process that requires a skilled or seasoned resource to complete. With the enhanced reporting functionality found in most HCM SaaS solutions, companies are finding that developing reports requires less time and provides more accurate and real-time data. HR executives are realizing that the once-significant challenge of accessing accurate data for reporting is becoming a thing of the past. Improved reporting functionality can also lead to lower costs associated with merger and acquisition activity, program changes, organizational changes and development of new interfaces.

3. **Self-Service and the Service Center:** Most HCM SaaS solutions provide an intuitive and user-friendly interface that allows employees and managers to identify key information and complete standard transactions that, under a traditional ERP, would require a call to an HR generalist or service desk. With improved employee and manager self-service capability and a lower number of inquiries, HR and service center resources can potentially support a larger employee population. They may also find that, with the decline in employee inquiries around simple transactional items, like address changes, the HR generalist and service center staff can commit more time to the more-strategic role of resolving complex employee issues. A decrease in the number of employee inquiries due to improved self-service may lead to the discovery of excess capacity in HR administration.

Additional targets for savings may be revealed in the following service areas:

1. **Workforce Administration:** HR employees will spend less time entering and updating employee information. Improved data analytics capabilities allow HR employees to conduct complex analyses more efficiently and with better outcomes.

2. **Onboarding:** A more streamlined and automated process means an HR resource can complete the onboarding process more efficiently and effectively. System alerts, automated workflows and controls ensure that new hire documents are completed as required, keeping the process from getting bogged down and reducing the risk of tasks being left undone or incomplete.

3. **Payroll Administration:** For enterprises that handle their own payroll, HCM SaaS increases automation and functionality so that in-house payroll employees spend less time processing payroll. Administrators will see reduced duplication and manual entries, a decrease in late terminations, and an elimination of data discrepancies between the workforce administration and payroll divisions. An integrated system also ensures the automated time system (which should include overtime rule protections) feeds accurate data to payroll, reducing the possibility of leakage associated with overpayments.

4. **Learning Administration:** Administering professional development on a single SaaS platform for the entire organization will allow learning administrators to distribute content, schedule classes and track course completion in a more efficient and effective manner. The system also will aid in eliminating duplicated content that is traditionally found in a decentralized environment.

5. **Compensation Administration:** Automation and improved functionality allow compensation resources to spend less time completing a salary action in the system. Administrators may also reduce the time required to complete the merit planning cycle.

6. **Recruiting Administration:** A recruiting tool with improved functionality will enable recruiters to spend less time filling open positions. For seasonal staffing, recruiting resources will realize a more efficient process in hiring, onboarding and eventually terminating temporary resources.

Once an enterprise identifies the areas for potential savings in direct staff, it's time to capture the identified savings at the bottom line. In moving to an HCM SaaS environment, organizations realize headcount savings through either reductions of full-time employees (FTE) or through the consolidation of multiple fractional employee roles. If excess capacity exists across multiple roles, a restructuring of the HR organization may be warranted to consolidate, eliminate or redeploy resources to other strategic priorities.

Indirect Staff

IT resources that support the software environment and field resources that devote some portion of their time to HR-related activities may see a dramatic drop in their effort and time associated with HR systems and service delivery. A new HCM SaaS environment will require configuration, integration and testing effort from the enterprise's IT or HR resources, but IT resources will no longer be responsible for creating complex customizations, maintaining

multiple integrations between various systems, performing upgrades to the environment, completing routine maintenance tasks, or providing regular support to the hosting infrastructure.

Field resources will find their time and effort devoted to HR-related matters will drop significantly or eliminated altogether as employees and managers are able to complete tasks on their own through the intuitive, self-service functionality. This may give organizations the opportunity to consolidate and reorganize their field operations to capture savings.

Systems & Infrastructure

System and infrastructure savings come by way of eliminating existing software and hosting infrastructure as it is replaced by the HCM SaaS system. This requires taking time to walk through the software and hardware list created during the base case development phase to understand the true functionality of each hardware and software item and whether or not the new SaaS solution will replace the current functionality. This also is a time to identify required upgrades to the existing system and infrastructure environment. Capturing the additional expense of required future upgrades in the current system will assist in drawing a healthier bottom line for the future-state scenario.

If the current HR ERP is hosted in a shared environment with other technology platforms (e.g. Finance), moving to an HCM SaaS environment may not produce an opportunity to retire the entire current infrastructure environment. But there may be some opportunity to consolidate a portion of the infrastructure and create open capacity within the environment. Additionally, this may support a broader organizational move to new hosting environments, such as public or private cloud.

Third-Party Vendors

HCM SaaS solutions often allow an enterprise to eliminate existing vendor-hosted technologies and services. Eliminations in this category are not always as easy to identify as those in the systems category but can produce significant savings. The increased automation and improved self-service functionality in an HCM SaaS solution can lead to reductions in dependence on current vendors. The first step is to review each current vendor and determine whether the functionality available in HCM SaaS will reduce or eliminate the need for those services. An enterprise might see a reduction in call volumes for an HR contact center, for example, when it moves to a more intuitive, self-service model deployed through HCM SaaS.

BUSINESS EFFECTIVENESS BENEFITS (SOFT DOLLAR)

When evaluating a move to a new HCM SaaS environment, one of the biggest challenges is finding enough savings to convince decision makers to adopt the new technology. Many organizations complete only the quantifiable savings portion of the business case to find

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that a move to an HCM SaaS solution is not financially advantageous. But with the new functionality afforded by the SaaS solution, an organization will realize numerous benefits that don't necessarily translate easily to the business case bottom line. Nonetheless, they still contribute significant value to the organization and should be highlighted when developing a convincing argument for moving to an HCM SaaS environment. Some examples of these benefits include:

1. **Strategic HR Decision-Making:** The improved functionality of an HCM SaaS solution equips HR leaders and managers for making better strategic decisions. Examples may include improved analytics for understanding the correlation between compensation and performance or for understanding how a particular policy decision may impact at-risk employees.

2. **Employee Engagement and Empowerment:** Because improved self-service functionality means completing HR-related tasks takes less time, employees will have more time for their core job responsibilities. Enhanced mobile capabilities mean employees are no longer confined to completing HR-related tasks from their PC or laptop. They can quickly and easily update and submit required employee information, review and confirm payroll and benefits information and learn about company policies and programs, all on the fly, which creates a more consistent and accurate application of policies throughout the organization.

3. **Vendor Management Effectiveness:** Moving from a decentralized model that requires numerous different vendor agreements to a centralized model that relies on one HCM SaaS provider eases the burden on the vendor management and procurement departments.

4. **IT Innovation and Flexibility:** HCM SaaS providers retain current customers and attract new ones by ensuring their product is aligned with current technological trends and innovations. With an HCM SaaS system, the provider continuously updates the software to its latest version. This frees up the buy-side enterprise's internal IT resources to focus more of their time on their strategic responsibilities. Most providers also implement upgrades in the "off" status, allowing their customers to test new functionality through provider-supplied sandbox environments before putting it into production. This way the customer's internal IT support can become comfortable with the new functionality before rolling it out so that the organization as a whole experiences a smoother transition.

5. **Organizational Alignment:** Many organizations are considering moving their IT operations from the traditional company-owned infrastructure to the new SaaS environment. IT departments are usually one of the larger partners in an organization and therefore have considerable influence on the direction the organization takes in terms of technological initiatives. By moving to an HCM SaaS environment, HR leaders are contributing to the technological alignment of the organization and are helping to create a more efficient, effective and technologically advanced organization overall.

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An HCM SaaS solution also helps companies attract, engage and retain a strong workforce.

6. **Leadership Focus:** Enterprise leaders are beginning to realize their employees are a significant client-facing asset, particularly in people-intensive businesses like hospitality, banking and retail. Leadership is beginning to consider investments in a commercial-grade employee experience, such as an HCM SaaS solution, as a client-facing investment that will pay dividends towards the organization's overall success. An HCM SaaS solution also helps companies attract, engage and retain a strong workforce by providing the same high-quality environment for their employees as they do for their customers.

7. **Financial Statement Impact:** In a traditional ERP environment, organizations typically procure and own their licenses and hardware, requiring a significant up-front capital investment. In an HCM SaaS environment, the organization does not own the software and infrastructure and can, therefore, avoid a significant one-time capital investment. While there is still a required one-time investment for the implementation of an HCM SaaS solution, it is typically a smaller investment than for the traditional ERP environment, which frees up cash for the organization. Most of the cost for adopting an HCM SaaS solution is found in the monthly subscription fee, which includes the required software and infrastructure and can be treated as operating expense for the organization. Of note, many SaaS providers require their monthly subscription fee to begin on day one of implementation, so the beginning of a new contract may present an overlap in payment of implementation and subscription fees.

8. **Workforce Planning:** Industry metrics show that the average cost to replace an employee, depending on employee level, ranges from 0.5 times to 2 times the annual cost of the employee. With advances in predictive analytics, organizations now have an opportunity to reduce employee turnover and provide better workforce planning. Many providers include predictive analytics in their HCM SaaS solutions that are capable of pinpointing employees perceived to be at risk of leaving the organization. This tool has the potential to reduce the recruiting expense incurred when a role is vacated.

9. **Compensation Administration:** While the "Direct Staff" section above addresses the actual savings in resource cost due to more efficient HR administration, HCM SaaS can also improve how a company adheres to and administers its merit budget.

10. **Employee Efficiency:** With enhanced automation and self-serve functionality, employees are able to complete HR tasks more efficiently and spend more time focusing on the core activities of their roles. Examples include:

   - **Time Management:** Employee and managers can more easily view, reconcile, correct and approve time entry.

- **Learning Administration:** Employees have greater access to learning content and spend less time "shopping for" and completing courses. Administrators experience improved compliance through better tracking of learning courses and certifications. While there are actual savings to be had in HR administration, improved learning administration takes into account the improved access to content for employees and users.

- **Onboarding:** New hires can more quickly complete the on-boarding process and reduce the risk of missing required tasks. Though this may not translate to any reduction in cost (see "Direct Staff" section above), an improved on-boarding process reduces the time and effort required of a new hire.

Business Case Checklist

HARD-DOLLAR SAVINGS

1. Direct staff

   - Improved automation

   - Increased reporting functionality

   - Self-service and the service center

   - Workforce administration

   - Onboarding

   - Payroll administration

   - Learning administration

   - Compensation administration

   - Recruiting administration

2. Indirect staff

3. Systems and infrastructure

4. Third-party vendors

SOFT-DOLLAR SAVINGS

1. Strategic HR decision-making

2. Employee engagement and empowerment

3. Vendor management effectiveness

4. IT innovation and flexibility

5. Organizational alignment

6. Leadership focus

7. Financial statement impact

8. Workforce planning

9. Compensation administration

10. Employee efficiency

    - Time management

    - Learning administration

    - Onboarding

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CONCLUSION

Developing a business case that supports an organization's adoption of a HCM SaaS solution requires thorough evaluation of the current environment and accurate projections of the anticipated future-state environment. HR organizations that take into consideration the potential efficiencies and savings related to their employee population, systems environment and vendor management will likely find the case for change is not hard to make. By conducting a thorough analysis of the opportunities for improving business effectiveness, an organization will have effectively captured the true value an HCM SaaS solution can provide an organization.

When effectively deployed, today's HR technology can enable HR transformation. A few of the benefits organizations can expect include:

1. The ability to make data-driven decisions as the quality, availability and integration of HR and business data increases and is leveraged with robust analytics tools.

2. Streamlined, intuitive and self-serve transactions that allow more time to commit to HR strategy and business impact.

3. Consumer-grade, mobile interfaces and usability to attract, retain and engage tech-savvy talent.

4. Regular functionality updates that ensure your HR applications are in synch with changes in HR best practices and technological innovation.

To take advantage of these benefits, organizations should also invest in building the right service delivery model, appropriately staffing release management and proactively managing the ongoing change to ensure adoption.

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Published April 4, 2016

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