

Cloud-Based or On-Premise Human Capital Management: *Strategies for Consumer Products companies*



The marketplace for Human Capital Management (HCM) solutions has seen an extraordinary amount of acquisition and consolidation activity in the past six months. The activity related to cloud-based HCM solutions for Consumer Products companies is far outpacing any other application of cloud-based technologies. Earlier this year SAP spent \$3.4 billion to purchase SuccessFactors. Not to be left behind, Oracle jumped into the fray two weeks later by spending \$1.9 billion to acquire HCM solution provider Taleo. Some say that Salesforce.com started the frenzy with its purchase

in December of 2011 of cloud-based HCM performance management solution Rypple.

And as a backdrop to this activity, there is an impressive march forward by cloud-based HCM provider Workday. In a recent Towers-Watson survey, 444 organizations responded to detailed questions about their HCM solutions.¹ Of those organizations planning to implement a new HCM solution, 22 percent are planning to implement an SAP HCM solution. However, a stunning 18 percent are planning to implement a Workday solution.

With the highly dynamic solution landscape for HCM, questions abound. Should Consumer Products companies implement an on-premise SAP HCM solution? Should we continue to invest in on-premise SAP HCM solutions? Should we investigate cloud-based solutions like Workday? What can we expect from SAP's purchase of SuccessFactors? How do I maximize my company's success while minimizing the risk we face during these volatile times?

To help lay out a roadmap for success, we sat down with David Watts, one of Clarkston Consulting's SAP HCM specialists.

What's driving all of this acquisition activity with cloud-based HCM solutions?

Well, it's really the result of two unyielding forces. On one hand we have the continued maturity of web-based solutions. We shop on the web, and we bank on the web. We even use the web to reserve a table at our favorite restaurant. That trend line is unstoppable. Combine with it the ongoing drive in business to provide better solutions to business challenges with less investment. Where these two trends are intersecting, we've seen the rapid development of powerful cloud-based HCM solutions. And since these solutions have proven themselves to be viable in the marketplace, the traditional on-premise solution providers like Oracle and SAP have taken notice. As you look at the success of Workday, it is clear that their rapid adoption rate by companies is a threat to Oracle and SAP. That's why the big guys have been on a buying spree.

Why HCM? Why is it that the HCM cloud-based solutions seem to have taken off so fast? Why not another area, like core financials, for example?

I believe the answer lies in the degree of integration between the solution and the core business. For years, Human Resources has struggled with the challenge of tightly integrating itself into the fabric of the business. HR has always desired a full-fledged seat at the boardroom table, but has always fallen just a little bit short. Right or wrong, HR has never been seen as fully integrated into the core activities of the business. On the other hand, think about the core financial modules of an ERP solution. There's no denying this solution is tightly woven into the core business of the organization. You can say the same thing for production

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activities or sales and distribution activities. But the very thing that has caused HR to be viewed as something of a step-child, now allows it to really soar in the cloud.

Executives have been very reluctant to put core business processes out there, somewhere, on the cloud. Even a momentary glitch could impair their ability to conduct business. But HR, well, that's a different story. Because of the way HR has typically been viewed, IT leadership has been willing to allow HR plenty of rope for crafting its own solutions. And the view is simple: because HR is not so tightly woven into the fabric of the core business, HR can tolerate a few glitches. Simply put, if talent management activities go down for a few hours, it doesn't stop the business from booking orders and closing new deals. So the very factors that have hindered HR from getting that full-fledged seat at the boardroom table, have now allowed it to embrace new cloud-based solutions quite freely.

Is it a bit ironic that HR is now leading the way to the cloud?

Indeed. What may be even more ironic is that the adoption of HCM solutions in the cloud may prove to Consumer Products companies that cloud solutions are very cost efficient and supremely reliable. It won't be long before core parts of the business observe the success HR is having and start saying, "Me too!"

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Do you see this trend continuing within the Human Capital Management space?

Yes, absolutely. In the Towers Watson survey, 9 percent of responding organizations said they are using cloud-based HR solutions extensively, 28 percent are using it somewhat, 5 percent are implementing a solution and 12 percent are planning to use cloud-based solutions for HR. Clearly, with 54 percent of organizations either using cloud-based solutions, implementing one, or planning to – this trend toward the cloud will continue for HR.

Talk to us more about SAP's acquisition of SuccessFactors. What does that mean to the SAP HCM landscape?

SAP's acquisition of SuccessFactors is very interesting and will provide some great opportunities for organizations who can take advantage of these new solutions. To really put this in perspective, we need to think in terms of SAP's on-premise ERP HCM solution. There are really two major sets of functionality: (1) core HCM and (2) Talent Management. Think of core HCM as: Personnel Administration, Organizational Management, Time Evaluation, and Payroll. These are the back-office functions that are generally administered by HR and payroll professionals. Think of Talent Management as the full life-cycle of talent within an organization: finding it, growing it, keeping it, and developing it. Think of modules

like e-Recruiting, Compensation Management, Succession Planning, Learning Management, etc.

Today, SAP has a very robust on-premise solution for both core HCM and Talent Management. Couple this with robust access methods that can bring employees and managers into the process: Employee Self Service and Manager Self Service.

What SAP's acquisition of SuccessFactors means immediately is that there is now a very capable cloud-based solution which can address the entire Talent Management set of functions. With it, comes all the normal advantages of cloud-based solutions: lower investment, lower infrastructure cost, rapid implementations, and a friendly, "consumer-grade" user experience.

However, it gets a bit more interesting because in the months to come (most likely six to nine months), SAP will round out their cloud-based solution for Core HCM, which is SuccessFactor's Employee Central solution. When this is ready, SAP will be taking direct aim at Workday. SAP will have a full core HCM solution and talent management solution in the cloud.

With these anticipated cloud-based solutions from SAP, do clients need to move away from the traditional on-premise SAP ERP HCM solution?

Not at all. The choice is completely in the client's hands. SAP has confirmed full support for its on-premise ERP HCM solutions through 2020 and they have repeatedly stated there is no forced migration to the cloud. They recognize that cloud-based HCM isn't right for everyone, but it is right for some. Some may look at the SAP solutions and decide to implement a fully cloud-based solution using Employee Central and the SuccessFactors Talent Management suite. Others may implement or retain a fully on-premise solution with ERP HCM and on-premise Talent Management.

But others may opt for a hybrid solution. They will keep on-premise core HCM and integrate it with cloud-based Talent Management solutions. That's a very real option and for many organizations may be the very best solution.

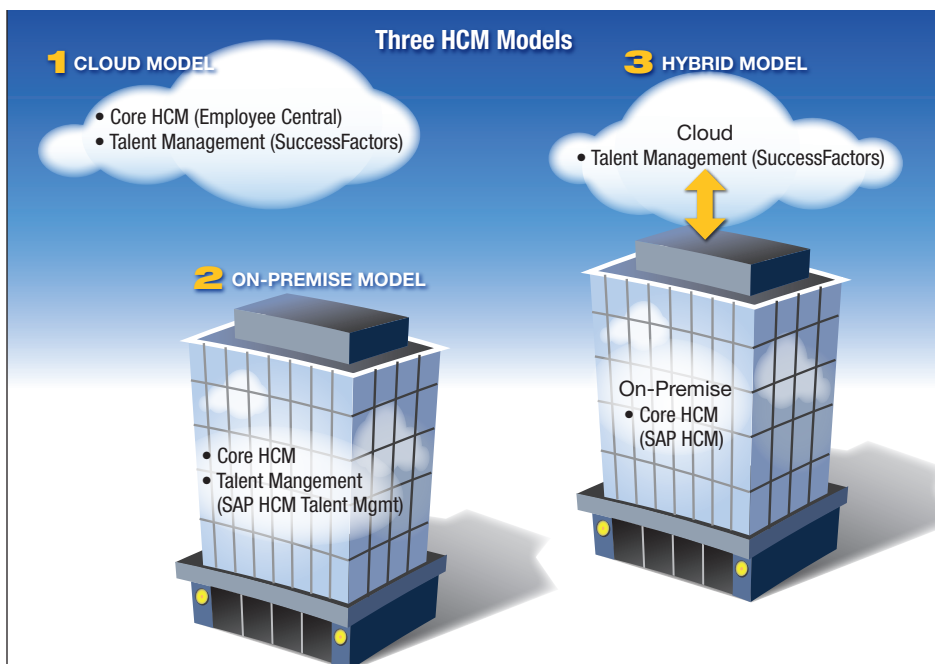
The hybrid model sounds interesting. Is that available today?

The short answer is: yes and no. Yes, today, an organization can implement the SuccessFactor's cloud-based Talent Management solution. That's a real option. We have clients that are doing this as we speak. However, the integration between ERP HCM and SuccessFactors is rather light at the moment. The integration tends to be custom and tends to be one-way: from SAP to SuccessFactors.

However, SAP it is making it a very high priority to make the integration much more robust. I expect we will see strong integration between SAP and SuccessFactors by late summer of 2012. In fact, SAP has stated that their default, go-forward recommendation for talent management will be the SuccessFactors suite. That decision virtually guarantees SAP will pour significant investment into ensuring a very tight integration.

Will SAP continue to enhance their existing on-premise HCM solution?

Definitely. We're excited about the forthcoming release of Enhancement Pack 6. One thing EHP 6 will do is bring much of the ECC HCM functionality that we access today through the SAP GUI, into a browser-based environment. In the browser environment, we expect the interface to improve, with new options for filling out forms online without having to use Adobe Interactive Forms. And as it relates to on-premise talent management solutions, SAP will continue to make targeted improvements to the solution. Investments and improvements will continue.



In general, are there risks with cloud-based HCM solutions?

Yes, there are risks to be aware of. One key risk is data ownership. If your needs change and you leave a cloud-based solution, how easy is it to get your data out of that solution and prepare it for migration to another solution? I've talked with an organization that used a cloud-based payroll solution. When they determined it wasn't working for them any longer, they found it very difficult to extract their data in preparation for moving to a new solution. So it is important to watch the issue of data ownership and data extraction very carefully.

Another key risk is that of integration. At present, cloud-solutions are the new kid on the block. They do some things very well. But the traditional ERP solution has typically achieved one thing exceedingly well: integration. It is possible to slip back into the trap of building disparate solutions which are not truly integrated. Often, the base-level of "integration" cloud-based solutions provide may be one-way data integration. That is to say, data flows from your primary HR systems and into the cloud-based system, but never to return.

This ends up creating messy situations where there is no longer one version of the truth – but at least two or three.

And of course, HCM solutions are very sensitive to data security. Let's not forget, we're talking about systems which store and process employee data records. This data is highly sensitive. The consequences for data insecurity will be severe. Likely, somewhere down the road, there will be data security breaches among cloud-based HCM solutions. Imagine hackers penetrating a cloud-based HCM solution and gaining access to names, social security numbers, addresses, dependents, etc. of tens of thousands of employees across multiple organizations. One major breach like this may have a chilling effect on the use of cloud-based solutions by HCM.

How do CP organizations best leverage these developing cloud-based HCM solutions?

Consumer Products companies are certainly faced with regulatory requirements that must be addressed, such as OSHA compliance. They need to have the ability to delivery highly impactful training, anytime, anywhere, and maintain strict record keeping requirements of

delivered training. The ability to do this can pay big dividends for a Consumer Products organization. The cloud-based nature makes implementation rapid and access to the system by employees easy. These cloud-based solutions often feature what we call “consumer-grade” functionality. That is, they look and feel, in navigation and functionality, like leading websites with which employees already interact: Amazon, Facebook, Twitter, LinkedIn, etc. This substantially eases adoption and use by employees which can great help a consumer products organization successfully deploy critical training.

Another area where Consumer Products organizations see great benefit is with Talent Management, especially succession planning. Consumer Products organizations tend to have large numbers of employees, scattered across a wide geography. Clarkston Consulting recently helped such an organization implement a talent management solution to better answer these questions: do we have the right employee, with the right skills, in the right job, at the right time? What skills does that employee need to move to the next level? And which other employee is most qualified to move into this newly vacated position? The solution we implemented for one of our

Consumer Products clients was a Nakisa on-premise solution, as that was the right fit for them. But other clients will see value with the new cloud-based Talent Management and Succession Planning solutions which are now maturing. Again, because of the highly distributed nature of employees and the HR team in the typical Consumer Products organization, the cloud-based solutions are often an easy fit.

Any final recommendations for Consumer Products organizations struggling to make sense of this changing landscape?

We always have to go back to these core principles: what is the mission of the organization, how does HR support that mission, and what tools are required to get the job done? Aligning the organizational goals with HR goals, and investing in the tools necessary to achieve these goals is critically important and this remains unchanged regardless of the method of delivery for HCM solutions.

Remember, the question of whether to base solutions on-premise or in the cloud, is just one factor. The most compelling question is: how do we best solve business challenges with HCM technology? How do we find, keep, grow and develop talent better than our competition? How do we find

the highly-qualified talent that’s required to keep our organization at the leading edge? How do we support the demands of the business with HR analytics—both to make sense of what has already happened and to predict what will happen tomorrow?

On-premise solutions may deliver the most effective answers to those business challenges. In other cases, the cloud delivers the most effective answers. Our best advice is to not be driven by the solution source (on-premise or cloud). Be driven by that which best solves your key business challenges.



About the Author

David Watts is a manager with Clarkston Consulting who has a passion helping organizations better

utilize their human capital. He has over 15 years of IT project management experience, of which the last 10 years has been focused on successfully managing SAP Human Capital Management (HCM) projects as well as general SAP implementations.

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