

Human Capital Management in the Cloud: A Review of the SAP and SuccessFactors Strategy



The Curious Case of Human Capital Management (HCM) In the Cloud: Has Lightning Struck the ERP Business Community?

With adoption of HCM in the cloud accelerating, integrations such as SAP and SuccessFactors is a testament of how SaaS approaches are becoming a part of the long-term corporate strategic plan.

The strategic HCM market has rapidly grown over the last decade, accelerating in the last three years. In the cloud market with its SaaS implementations, four out of five recent implementations are specific talent management deployments. With the acceleration of SaaS adoption, the Enterprise HCM Software market will continue to rapidly evolve with on-premise ERP vendors looking at deeper development, collaborations, and/or acquisitions of cloud HCM pure-plays. Looking at recent studies, it appears to be more than just a “flash.” Consider:

- Gartner is projecting a \$10 billion HCM market, with \$4 billion in talent management, 75 percent of that market coming from SaaS.¹
- According to a recent Aberdeen study published, 39 percent of “High Growth” organizations planned to invest in cloud computing in 2012.²

But what is the root cause of this “climate change,” especially in HCM, that has caused so much disruption in so little time? It is fair to say that the HCM market has been largely under-invested by major ERP providers and that HCM organizations generally had to make do with what was included as part of a broader ERP initiative or continue to use outdated technology to address “back-office” functions. But there have been a series of market disruptors that have thrust HCM to a curious position of attention.

In the past few years, many articles have been written about the pressing issues of talent shortages, attracting Generation Y to the organization, and the opportunities around social collaboration and mobile technology. Given the “high touch” innovation we’ve witnessed in the past five years alone, it should also come as no surprise that HCM has found itself to be at the nexus of the SaaS sweet-spot exactly because of those high-touch expectations we have when we join a new organization. Feeling connected, social, and collaborative is fueling new innovations around HCM processes. With the availability of discrete, low-costs solutions, HR organizations have quietly taken a best-of-breed approach that not only demonstrated immediate value, it opened the notion of re-imagining the HR process and pushing the envelope in what can be achieved outside the corporate IT boundaries. With HCM now in a position of making operational expenditure decisions (because of

subscription-based models) and in some cases bypassing the procurement process, it's no wonder we've seen an intense focus on HCM. There are other practical reasons too, namely the notion that the risk: return ratio is so compelling for HCM, especially compared to other mission critical areas like order-to-cash and supply chain. In a recent IDC³ survey for building a business case for moving to the cloud, the top three reasons cited were:

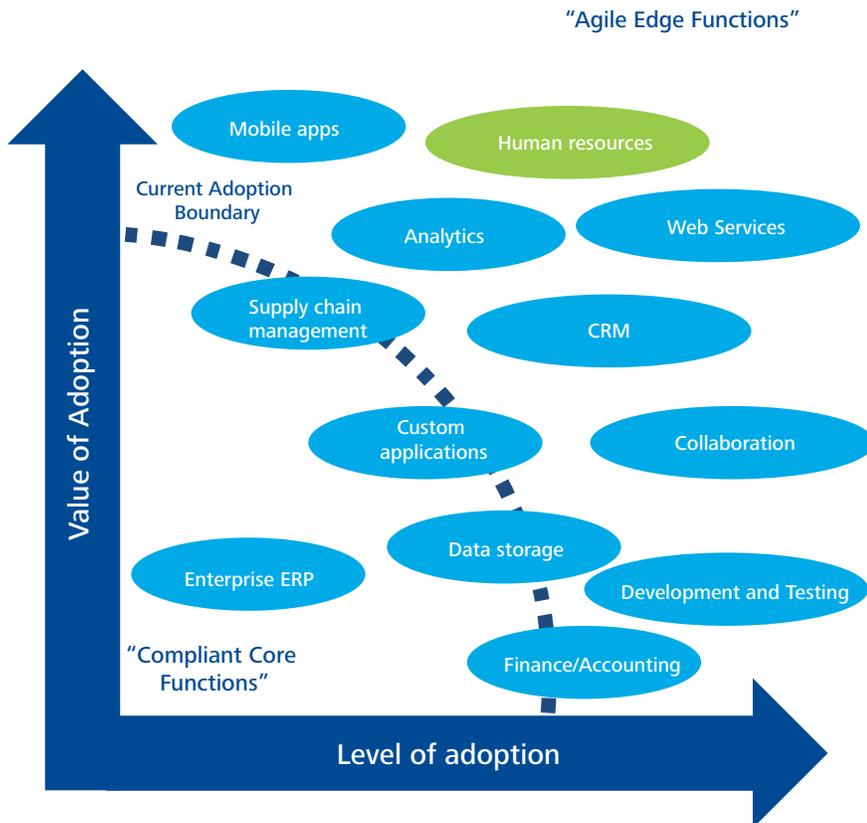
- Lower IT Costs
- Better/faster access to data
- Operational Savings (beyond IT)

In the same survey, it was curious to see that access to current functionality and less reliance on IT staff rounded out the least important reasons to move to the cloud. When the IDC survey asked about top challenges implementing cloud services, the three top concerns were:

- Security
- Data Privacy
- Legal

The least concerns were around ROI justification. Given the survey results, one can rationalize that on one hand HCM is an effective candidate for overall cost reduction programs, but given their roles as gatekeepers of Personally Identifiable Information (PII), moving to the cloud can pose greater responsibilities to the organization and to HR management. The following chart depicts where HCM likely sits in relativeness to other functions in terms of adoption.

Given the compelling outcomes of SaaS for HCM, countered by technical integration and privacy challenges, approaches such as the SAP and SuccessFactors integration may provide a new set of options available to organizations looking to balance function and form. In this regard, solutions such as SAP and SuccessFactors are designed to provide a hybrid of choices to the HCM community, creating a different set of benefits to be realized. Fundamentally speaking, the question has shifted from "if" HCM in the cloud to "where."



Source: Deloitte: Cloud Computing Workshop May 2, 2012

3. IDC, 2012 Cloud Professional Services Survey and IDC, 2009 Cloud Professional Services Survey

SAP and SuccessFactors: A Path Forward

This is just the beginning. With innovation accelerating, HCM will become a model for what is possible.

With SuccessFactors historical focus on core talent management functionality, combined with their prior strategic acquisitions in recruiting and learning applications, they have become an aggregator of best-of-breed HCM functionality. Applications like their performance management suite and the learning platform are considered among the leaders in their categories by many third party evaluators. Combined with SAP's HCM heritage of core HR functionality, this transaction has created a HCM ecosystem under one unified umbrella. Considering SAP is not done with their Cloud-based strategy and their expansion of their IT ecosystem, this can be compelling for several reasons to the HCM and IT community:

- With a strategic focus of unifying (vs. integrating) the various functionality, SAP is leveraging the strengths of SuccessFactors core assets (Talent functionality, user experience, flexibility) without necessarily having to sacrifice what makes SuccessFactors compelling in the first place. SAP's strategy of unifying the various layers of cloud-based applications with on-premise flexibility provide both the CIO and CFO reasons to support HCM's adoption of the SAP/SuccessFactors approach, while protecting their long-term strategic SAP investments.
 - For many HR leaders, the SAP/SuccessFactors path forward can demonstrate a view to keeping HCM tightly woven with the rest of the business functions, instead of isolated to another 3rd Party platform. Whereas the market saw HCM as a first-mover into the cloud, it is now becoming the model for demonstrating how organizations can be effective in the cloud, on-premise, or in-between — all the while enhancing/increasing value to the whole organization and not just one aspect of it.
 - Advances in social, mobile, and collaboration technologies will likely leverage HCM beyond just core employee data. It can develop opportunities to develop meaningful connections with employees and customers beyond what are capable today, shining a light on meaningful employee productivity to corporate performance indicators. Focus on HR analytics has now greater meaning given the opportunities to connect the corporate data in ways that were not possible before.
- In reviewing SAP/SuccessFactors, the following observations can be made:
 - SAP required a broad and complementary HCM solution: Many customers had stopped internal SAP HCM investments to go to firms like SuccessFactors to accelerate innovation in the talent space. The rise of discrete Talent solutions was made possible by the lack of general innovation in the HCM space by legacy ERP vendors. Further, cloud computing provided an opportunity to deliver rapid innovation to customers without the drama of large capital expenditure exercises.
 - SuccessFactors' provides SAP clients with near instant end-to-end HCM capabilities: SAP sees the SuccessFactors opportunity as an effective fit with their long-term strategic growth plans while leveraging their legacy HCM assets. The "secret sauce" is going to be how well SAP embeds its technical architecture within SuccessFactor's applications to allow "plug-and-play" while providing unprecedented access to the core foundational elements of ERP data and processes.
 - SuccessFactors' brings enhanced social and cloud specialization, while SAP provides mobile assets: This poses some challenges in the interim. SAP's portfolio comprises five different software architectures from ByD, Career OnDemand, Plateau, and Business Suite 7; without harmonizing the architectures, SAP will face back-end integration challenges in their goal of unifying the data. However, if executed effectively, this unification will separate SAP/SuccessFactors from their rivals by quite a distance, creating new opportunities and services.

This has poised SAP and SuccessFactors to be leaders in developing applications and services that will be built on innovative mash-ups of cloud, mobile, social technologies, and big data. This advance in open architecture will provide not only SAP and SuccessFactors a compelling differentiator from its competitors, it opens a realm of possibilities for clients, integrators and 3rd parties to collaborate in new ways.

Weighing the options. A review of committed innovations and opportunities.

SAP and SuccessFactors have released their plans for continuous improvement of both SAP and SuccessFactors functionality in the near-term and over the course of the next few years. As the table below depicts, there is clear support for both on-premise and Cloud approaches. What is not apparent is that while both platforms will likely receive continuous support, those functions that are shaded will likely receive the lion’s share of investment, focus, R&D, and resources. Predominately, that means SAP will likely look to the cloud as its strategic bet for HCM development. Unless a client has compelling business reasons on looking to implement an on-premise solution, SAP will steer them towards considering SuccessFactors as a better long-term path. For clients that have largely leveraged on-premise approaches, SAP has committed to providing on-going support and enhancements, but don’t plan on major innovation releases. The exception appears to be in the core HCM Suite (Personnel Administration, Organizational Management, Benefits Administration, Payroll Processing, and Time Management), Workforce Analytics, and mobile solutions.

With SAP’s HANA solution (an in-memory Analytics

platform), there is a direct correlation with advances in Workforce Analytics and how SAP can leverage SuccessFactors capabilities in linking HR data to unrelated real-time data from the organization to help produce compelling perspectives across business functions. Workforce Analytics may ultimately become the “glue” as it will likely be an integral part of how HCM extends into various parts of the organizations. Mobility is less clear given additional acquisitions SAP has made in the mobile space and its overall impact to HCM. While SAP has announced specific mobile approaches for HCM are in general availability and in development, these are approaches that are a work-in-progress, particularly as organizations weigh the value of such applications. One particular area of opportunity is the notion of taking self-service to another delivery dimension: Mobility Self-Service (MoSS). Unlike Employee Self-Service or Manager Self-Service, MoSS can have the ability to help allow organizations to adapt an HR service delivery that is distributed, immediate, and shared. For organizations where shared services, regional COE’s, and traditional HR services are not practical, MoSS can provide a platform to service these employees anytime, anywhere. With SAP’s recent mobile acquisitions, clients will have additional applications to help improve the reach of HCM processes.

Functionality	On Premise Approach	Cloud Approach
HR Core	SAP ERP HCM (including Payroll, Benefits, Time Management)	SuccessFactors Employee Central
Performance & Goals	SAP ERP HCM	SuccessFactors Performance & Goals
Compensation	SAP ERP HCM	SuccessFactors Compensation
Succession & Development	SAP ERP HCM	SuccessFactors Succession & Development
Recruiting	SAP eRecruiting	SuccessFactors Recruiting
Learning	SAP Learning solution	SuccessFactors Learning
Social Talent Management		SuccessFactors Jam
Workforce Planning		SuccessFactors Workforce Planning
Workforce Analytics	SAP Business Objects for HCM	SuccessFactors Workforce Analytics
Mobile HCM	SAP mobile apps based on Sybase Unwired Platform (SUP)	SuccessFactors BizX Mobile

Being “tethered” to the cloud while remaining connected

In developing your SAP/SuccessFactors strategy, it is important to keep the following guiding principles in mind:

- It should not be driven by technology, but by the business imperative. Understanding the gaps and opportunities will help drive not only where HCM applications should be done, but how they could be used most effectively. Without a clear integration value, returns will likely diminish and segregate itself away from the core business
- Consider your HR Transformation goals and develop your Cloud approach around the HR Service Delivery components
- Keep one version of the truth. A distributed HCM environment can easily slip into a new collection of HR environments, moving you backwards. Delivering a HCM on a cloud-based platform is not about recreating existing capabilities
- In the immediate term, keep like-approaches together. Talent approach should be either in the cloud or on-premise. Not split
- An HR Master Data management strategy is important. Consider reviewing processes to manage System of Record (SOR) and integration points

Given rapid advances in HCM innovation, many clients have a range of choices they did not have until just 3 years ago. Not only can this bring opportunity, it can also bring paralyzing anxiety around the applicable/required path forward. In the immediate term, it appears there are no clear “wrong answers” in determining an appropriate HCM platform strategy. However, in the long-term — there are a multitude of factors that should be weighed and considered, beyond just the immediate impact of HCM. These include the organizations overall cloud strategy (Paas, IaaS, BPaaS) and expectations for a unified IT architecture with ERP investments already made. The following scenarios are some likely models for clients to consider as they are developing their long-term HCM cloud strategy.

- On-Premise Scenarios
 - Leveraging HCM largely “on-premise.”
 - Hosted/Non-Hosted, AMS, Private Cloud, etc.
 - Continued innovation related to core functionality, including for example Payroll Operations in the cloud

- In the “Cloud” HCM
 - Fully featured solutions, in the Cloud.
 - Full suite of HCM and Talent Management applications
- The “Hybrid”
 - Pick/Choose from array of native on-premise HCM applications with select cloud capabilities and other 3rd Party integration.
 - Unified solution
 - Leverages your current SAP footprint while allowing flexibility and integration in the Cloud

These scenarios address a variety of decision factors that can be different from client to client. Balancing deployment speed, innovation, risk/ratio to data privacy concerns, integration feasibility, and long term costs will likely require some thoughtful planning and a roadmap to transition the organization. For the most part, two out of the three scenarios most organizations are relatively familiar with and can draw from their own experiences related to the rewards and challenges of On-Premise versus some form of best-of-breed. While Cloud/SaaS for HCM is still very compelling, it’s not the only choice anymore to achieve immediate returns while improving the HCM experience.

Organizations will likely use the “Hybrid” approaches as a bridge to a more long-term roadmap so as to allow the offering to reach a maturity level where risk can be diminished over time. Clients should also consider that not all geographies, business units will have the same delivery model. A hybrid within a hybrid is now possible where organizations can also adapt a deployment model effectively suited for the line of business and region. For example with applications such as SuccessFactors, Payroll may be done on-premise, in the cloud, outsourced, hosted — simultaneously based on the regional/business need. While designed to be connected to the rest of the business. With the release of integration tools and methods, SAP/SuccessFactors are creating newer possibilities as promptly/efficiently as they are addressing them.

Lightening in the Cloud — HCM Challenges and Opportunities

Considerations for the Immediate and Long-Term

Moving HCM to the cloud can be bigger than the business transformation of just the HR function. The high adoption of HCM approaches in the cloud is likely to inspire other candidates to test out the high cost efficiency and reliability of cloud approaches. It won't be long before the other "mission critical" parts of the business take note of the effectiveness and attention HCM is receiving. Still we are seeing "People" and "Human Resources" are talked about as two different things. People issues are considered strategic whereas HR issues are viewed as administrative. While the semantics are real, there is now a dialogue that has penetrated the C-Suite regarding the true goals of Human Capital Management and that is in large part due to the HR organization's insistence of leveraging cloud-based technologies. HR leadership now typically finds themselves with a seat at the table, with the business eager to learn and poised to provide support. That doesn't mean managing the transition is simple.

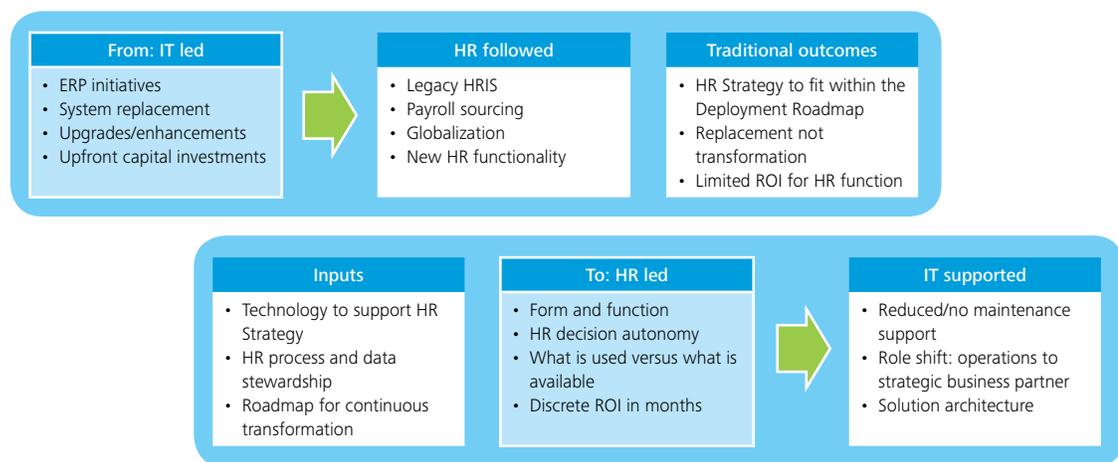
Stakeholder Perspectives

The business and the IT functions are likely to have different sentiments and perspectives moving HCM, let alone the broader organization, into the cloud. These challenges to adoption should be addressed during the case for change and efforts specifically focused to build confidence in the long-term solution. Leveraging select business processes to the cloud may be inevitable, but the path to get there and stay there is bumpy. In our research, the opposing sentiments below are typical point-of-views:

Gaining Momentum

The future for HCM in the cloud is undeniable, but there are still challenges ahead in terms of achieving the business and organization goals expected by such advances in innovation. It's not that the expectations are not achievable; they are likely to morph, shift, and contradict as continued maturity in the innovation evolves. The end results will likely be the same — a flexible HCM ecosystem capable of adapting to various service delivery models to address the changing requirements of Human Capital Management. Some will get there faster than others and some will reach different heights. What's important is that a roadmap is developed and clearly understood by the stakeholder's their role in enabling the organization to re-imagine.

HR and IT — evolving the operating relations



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