Outlook for 2006
TECHNOLOGY

New Software, New Players, More Web

Next year will be a fascinating year for those of us involved in, watching or commenting on HR's use of technology.

HR professionals will strive to leverage technology to help them react to, take responsibility for and adapt new policies and procedures to address such trends/issues as the aging workforce, the global and diverse workforce, concerns over data security and privacy, continuing cost-reduction pressure, controlling and eliminating spending on old technology and coping with changing vendors and vendor relationships.

In 2006, I believe that HR executives will benefit from functionally stronger software applications, new approaches to Web-based delivery of HR functionality and vendor activities including their consolidations, alliances and the appearance of new players in the space, along with the continued appeal of HRO across all verticals and company size. 2006 will be a pivotal year. In fact the year may be witness to the start of a new era, one I am calling "Web Services" or "pay as you go HRT".

For readability sake, let me group my 2006 outlook as follows, with no implied rank of importance. Here are the 10 trends, events and issues that I believe will make 2006 a critically pivotal and fascinating year to witness.

1. HR technology software applications will continue to increase in functionality. Applications must address the changing demographics and needs of the aging workforce and the global workforce.
2. Vendors who were in "best of breed" or application "niches" will seek to expand their offerings.
3. Mid Market organizations will be a major target of all vendors including the traditional ERP vendors who will down market, and best of breed vendors who will seek to offer new one-stop bundled solutions.
4. HRO as a strategy will continue in its wide acceptance, now considered a mainstream approach with clear cost benefits.
5. HRO vendor activity such as mergers and acquisitions will level off or cease in 2006. Alliances between multiple providers, though, will continue.
6. Organizations will increase their HR Technology spend budget for 2006/7.
7. HR executives will firmly grasp the need for performance metrics and other measurements to preserve their worth and to gain credence as a strategic business partner in organizations. Driven by that desire, HR executives will seek software applications that make such metrics user friendly and easy to calculate and present.
8. Off shore deals by companies headquartered in American companies will be limited and possibly legislated against at the state level. Although mostly pertaining to IT support, HRO with off shore support will not be readily accepted by American workers.
9. Privacy and Internet communications standards such as XML consortium standards will continue to be issues and will be embraced by more organizations, especially those in a global marketplace with global structures.
10. "Web Services" as the next new thing or wave in technology and service delivery will emerge and make a very visible initial impact on HR software delivery.

These 10 observations or outlooks for 2006 will be discussed as related groupings or individually.

Observation 1:

HR technology applications will continue to expand, with a strong emphasis on recruiting, staffing, scheduling and employee performance management.

Recruiting, HCM and Workforce Management - Companies predict an increase in hiring in 2006. Recruiting and retaining quality talent remains an issue. In addition, HR's primary focus has shifted from recruiting new employees to retaining and enhancing the performance of existing employees. The software application known as Human Capital Management (or workforce management) is being given a strong marketing push by many vendors. Concentrating on such applications as compensation planning and performance management, more and more HR executives (as well as senior management) are placing "pay-for-performance" technologies — systems that successfully automate and link compensation management and development with employee performance—at the top of their priority list. Software applications that enable employers to successfully identify, reward and retain top performers as well as identify and develop the next generation of leaders via succession planning will continue in favor.

"On-Boarding" as a software application—HR Managers are looking to streamline the new hire process through self service Web-based applications. Hard dollar savings will result from reduced cycle time and the ability for the new hire to be devoted to the work at hand on day one, rather than to spend time filling out forms, etc. HR reduces its time in creating the new hire packet, printing and fulfillment costs as well. New hires become familiar with their specific work colleagues, and even begin to focus on

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initial assignments before starting work officially. "On boarding" modules as part of HCM applications will be sought after.

"Quality of Hire" considerations drive software applications—HR professionals are seeking software applications that will increase the "quality" of their new hires (not just the quantity), and do so at an expedited pace. Thus, applications providing means of tracking testing results, candidate competencies, entire workforce competencies, interview results, interview scheduling and integrating all the processes involved into a seamless HRMS hire event, will be coveted. Also, with the changing demographics of the U.S. population and workforce, senior workers are becoming highly valued. Their proven experience, work ethic and part-time availability make aging Boomers a sought-after demographic. The ever increasing immigrant labor pool also creates challenges for HR executive.

Software that helps companies identify, attract, reward and compensate the aging workforce, keep Boomers engaged, and facilitates the global workforce working without borders (not many in company offices), enabling workgroup collaboration (knowledge sharing) and distance learning, will be a big draw in 2006 and beyond.

Benefits Administration applications, particularly Pension, 401(k) and total reward calculations will help attract and retain the aging Boomer population who will want to work fewer hours and on tasks that interest them.

Observations 2 and 3:

Vendors seek to expand market penetration and their software offerings for HR applications.

Traditional best of breed vendors are expanding their offerings and market penetration. One such example is Kronos, which added HRMS to its best in class Time and Attendance capabilities in 2004. This trend will continue in 2006. Other vendors are seeking alliances if not outright mergers or acquisitions to increase product sets and attractiveness to new verticals and wider breath of potential clients in terms of employee population (such as mid market). The goal to offer one-stop, bundled solutions of applications software, either licensed or hosted, as well as consulting advisory services. The remaining ERP vendors also are seeking to appeal to mid market.

This mentality has already driven such moves as ACS purchasing Mellon's HRIS services and EDS overtaking Towers Perrins administrative services to create ExcellerateHRO, both in the HRO space. Similarly, Authoria's purchase of Hire.com greatly expands their reach beyond knowledge management.

Observations 4 and 5:

HRO becomes mainstream and almost a necessity. Vendor consolidation in the HRO space will taper off in 2006.

This year has seen HRO take hold at all sizes of organizations. The number of end-to-end deals for HRO/BPO in the United States alone exceeds $2 billion. Driven by vendor alliances and marketing strategies to appeal to mid-sized organizations, new players offering great incentives to gain a foothold in the industry and in the U.S. in particular, the momentum gained in 2005 will continue unabated in 2006.

Newly formed entities such as ExcellerateHRO, ACS/Mellon, will join the global giants IBM, Hewitt/Exult and Fidelity in offering one-stop end to end HRO services using either ERP applications from SAP, PeopleSoft or Oracle, or their own home-grown HRMS. This is supported by onshore or offshore call/support centers and strong case management capabilities.

ADP, Accenture, Convergys, Arinso and Aon will continue to focus on mid- to global-market solutions.

The business case and pricing algorithms will be simplified and made more attractive to mid-tier (or mid-market) organizations as small as 2,000-3000 employees.

PEOs will start to gain a foothold in HRO as well. Vendors like Administaff, Gevity, and Checkpoint HR will make some noise in 2006.

Regarding HRO vendor M&A activity, in the words of senior executives at EquaTerra (an HRO/BPO Advisory firm) "Who is left to acquire? Everyone's been taken." So, don't look for any new acquisitions.

All this will make organizations of any size consider HRO before investing in or continuing an ERP relationship requiring an upgrade or migration in a licensed environment. Already weakened by the PeopleSoft Oracle battle, look for ERP's to make a move in 2006 by offering their own brand of HRO, either by a formal relationship with an existing, "name" HRO provider, or by somehow offering their proprietary software on an ASP (application Service Provider) basis.

Observations 6 and 7:

HRT spend will increase. Money will be earmarked for purchasing applications providing metrics and other measurements which will help HR executives gain strategic impact.

Recent surveys by The Conference Board, Towers Perrin and others all show that senior IT executives plan to increase their 2006/7 technology spend by approximately 5% from 2004/5 levels. HRTechnology may gain as much as 25 percent of that amount. Other surveys, mostly anecdotal,

EXPERTS WEIGH IN ON THE TRENDS

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seem to indicate that HR professionals seek performance measures and metrics to prove their "strategic" clout. Vendors like PwC/Saratoga, SAS and Doublestar will continue to strive to provide out of the box desktop "dashboards" oriented to user-friendly generation of HR oriented KPI's. The traditional HRMS and best of breed applications will seek to integrate this kind of capability into their product sets. Similarly, Data Warehouse initiatives using analysis techniques against multiple databases will remain a goal for large global employers.

Observation 8:

Offshoring initiatives in U.S.-based companies will hit a culture barrier. Eastern European countries, though, will gain favor as an offshore site for IT support.

American workers will put pressure on corporate executives that will cause them to curtail sending jobs to offshore locations. Many states have legislation pending that would prohibit winners of state contracts providing services in which jobs would be lost to overseas locations.

For HR functions requiring one-on-one employee-to-manager discussion for such topics as performance, rewards and goal setting, those processes and culture will not support any process steps that include anonymous call center help reading scripts.

For the traditional IT Outsourcing support and other back office processes, Eastern European countries will gain favor over India and Far East countries as labor pools for call centers. The Philippines and China will also continue to gain traction.

Observation 9:

Privacy concerns along with other Web communications standards will gain visibility.

Recent, very public security breaches at large financial, investment, outsourcing and Credit Card institutions will place more pressure on data security. HR executives will seek reassurances and proof from all software application providers that all workforce information is well protected. HR professionals will show greater interest in such technology issues as XML standards and encryption technology.

Observation 10:

The "Web Services" era of software applications begins to take shape.

The concept of a pay as go, pay for what you use software application model first adapted by the likes of Salesforce.com will move into HR technology in 2006. With a user interface modeled on Amazon.com and a search engine approaching Google-like capabilities, this approach will incorporate technologies under the heading of "Web Services." Using Java script, limited tables and having endless adaptability, new software will emerge. Already some niche providers are taking this approach. In Workforce management, year-old Hoursdoc.com uses this technology.

Industry pioneer Dave Duffield, the co-founder of PeopleSoft, is now actively using this technology to build a new ERP platform. During 2006 we should see his group's early efforts attract a very visible beta client. This is guaranteed to raise the excitement level in HR

Technology as Mr. Duffield's first application has historically been in HR.

His (as yet) unnamed company can be tracked at the Web site, DavesNextMove.com.

So, indeed, if just some of the above observations and trend prove accurate, the year 2006 will be quite interesting, if not pivotal, for HR technology. 🔲

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