

EUROPE SET TO MOVE EN MASSE TO CLOUD HCM



Rapid growth expected for cloud services as organisations call time on legacy on-premise Human Capital Management Systems

Survey conducted by IDG Connect on behalf of Workday



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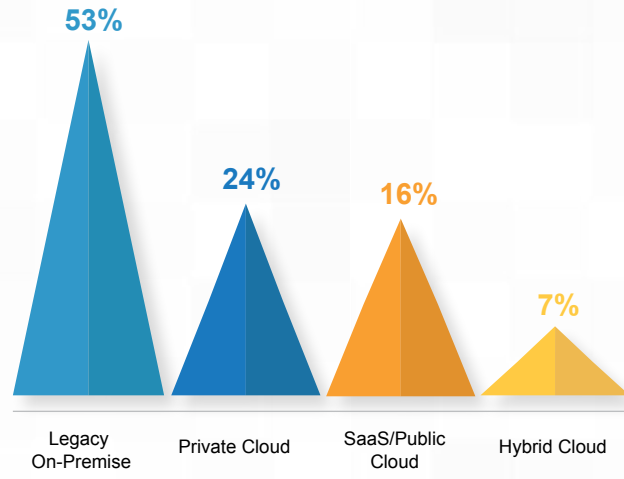
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SUMMARY OF RESEARCH

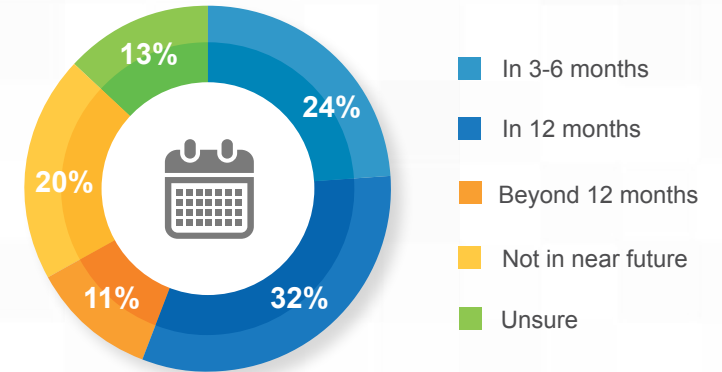
Cloud HCM is more than a niche

How do you currently deploy and manage your HCM solution?



Cloud HCM is being overwhelmingly considered by European organisations

Are you considering moving to a cloud-based HCM solution?



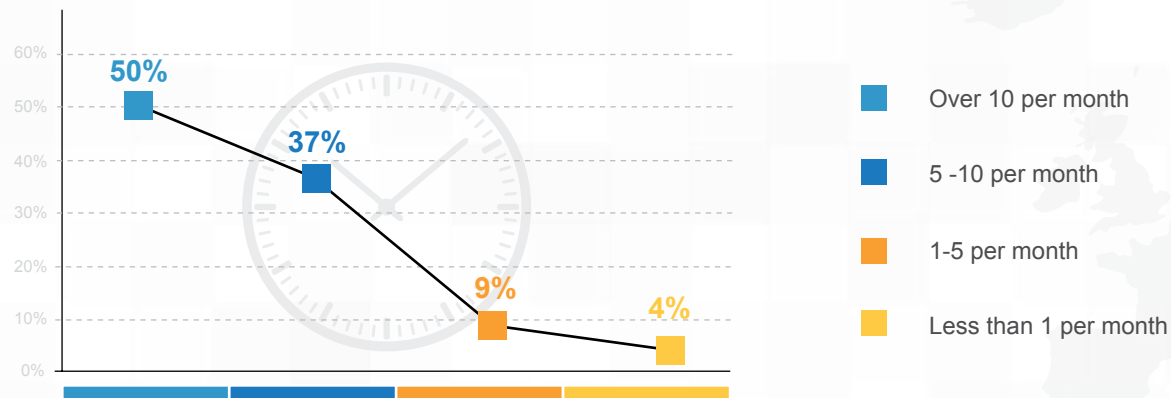
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Today's HCM is costing time (and therefore money)

Roughly how many man-hours does your IT department spend on the configuration, customisation, administration, maintenance, update and support of your core HCM system?



Source: The data in this white paper is based upon an IDG Connect survey of 100 IT professionals (i.e. business, technical and executive decision-makers) in Belgium, Denmark, Finland, Netherlands, Norway and the UK, conducted in September and October 2013. All respondents worked in companies and organisations employing more than 1,000 staff.

CLOUD HCM MOVES ARE IMMINENT

Adoption of cloud-based HCM solutions is progressing rapidly among large and mid-sized organisations in Europe. This survey of 100 IT executives working in organisations with 1000+ employees reveals that 56% of those still using legacy on-premise HCM solutions plan to move to a cloud-based solution in the near future (i.e. within the next 12 months).

The migration of these legacy on-premise HCM users needs to be understood in the context of the existing widespread adoption of cloud-based HCM solutions in Europe. Overall, among the entire sample of the IT professionals we surveyed, nearly half have already made the shift to HCM solutions running on private/hybrid clouds or multi-tenant software-as-a-service (SaaS) solutions. Only 53% of our respondents work for organisations that persist in using legacy on-premise HCM software solutions.



"In the past, our tools have weighed us down. They've held us back. Maybe the business was ready, but our tools were not. Now, Workday sits right alongside us, and partners with us through that quick pace in which we operate."

Kevin Ledford, CIO, Chiquita Brands L.L.C., 10/10/2013

Among enterprises that have already moved to the cloud, around half are hosting HCM applications in a dedicated private cloud environment. Equally, SaaS adoption has become much more than a niche: one-third of enterprises moving away from traditional applications have opted for SaaS/public cloud solutions. Given that cloud HCM is a relatively young phenomenon and that HR departments and related decision-makers tend not to swap out systems on a whim, this represents rapid progress in market adoption.

The momentum behind this transition remains strong. Indeed, the graphic on this page tells us something remarkable about the intentions of IT departments still operating with legacy on-premise HCM applications: only one in five say they won't move to the Cloud in the near future. A further 13% have yet to be finally swayed (they're "unsure").

For the majority of legacy on-premise HCM users, it's no longer a question of "if", and more a matter of "when" they move to the

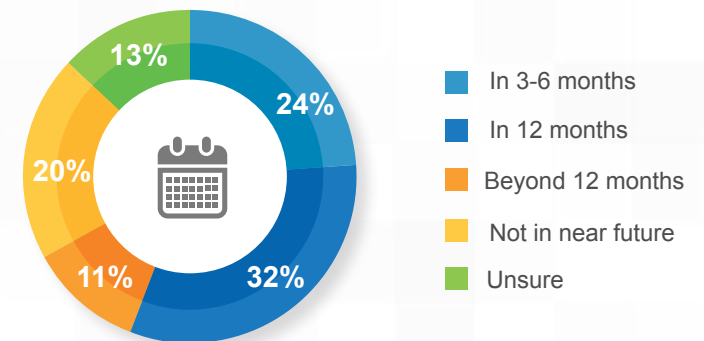
cloud. One-quarter (24%) of legacy on-premise HCM users are on the verge, planning to move during the next three to six months. In addition, almost one-third (32%) plan to make the move within the next 12 months. A further 11% say they will switch from legacy on-premise HCM applications to a cloud-based HCM platform in more than a year's time.

This clear shift is in line with other research data. For example, Gartner sees the HCM market being worth \$8.3bn in 2014 and \$8.8bn in 2015 with cloud accounting for three-quarters of the market. IDC predicts a \$9.9bn 2013 HCM market swelling to \$12.5bn in 2016. Circumstantial evidence is compelling too. Cloud firms across the board are currently enjoying high multiples on their stock market valuations and cloud HCM providers are no exception. Those that are privately held are often finding venture capital funding relatively easy to win and those that have sold have done so for large sums to some of the world's biggest IT companies.

We're witnessing a tectonic shift in the way companies deploy, consume and share information about their people and skills. Time is running out for legacy on-premise HCM applications. During the next 12 months, the number of European IT operations clinging to the old model will decline rapidly.

Majority of legacy on-premise HCM application users are shifting to the cloud

Are you considering moving to a cloud-based HCM solution?



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CHANGE DRIVERS ARE EVERYWHERE

As we have seen, slightly more than half of our respondents told us they currently use legacy on-premise HCM software. Of this group, 56% plan a transition to cloud-based alternatives within the next 12 months. A further 11% say they will make the transition at some point after 2014.

When we asked organisations considering a move to cloud-based HCM what is driving their decision-making, a high proportion identified multiple factors. The evidence suggests that a range of arguments for change have become deeply entrenched in the market.

Indeed, the general trend towards business IT deployment in the cloud seems to be creating momentum in its own right. Broad sentiment in favour of cloud as simply a better way to “do” IT is increasingly common with advocates pointing to fast deployment, scalability, business agility, reduced admin overhead and lower capital expenditure as major positive drivers. In this respect, it’s perhaps significant that the need to “compete with rival companies moving the same way” is cited by over half of respondents (53%) planning a shift to cloud-based HCM.

Looking inward at their own organisations, impending adopters heavily emphasise the need for increased agility, flexibility and scalability. Large groups of respondents cite “better support for rapid business growth” (53%), or a “need to integrate HCM across different business elements” (36%).

These progressive impulses are accompanied by an increasing awareness of the limitations of legacy on-premise HCM applications, many of which will be aging badly and are no longer fit for purpose as previous-generation HR/HCM/ERP companies have been acquired and buyers have declined to invest in new capabilities. A large minority, 42%, say that existing applications and services do not provide “required functionality”, and 25% simply agree that it’s time for their legacy systems to be replaced.

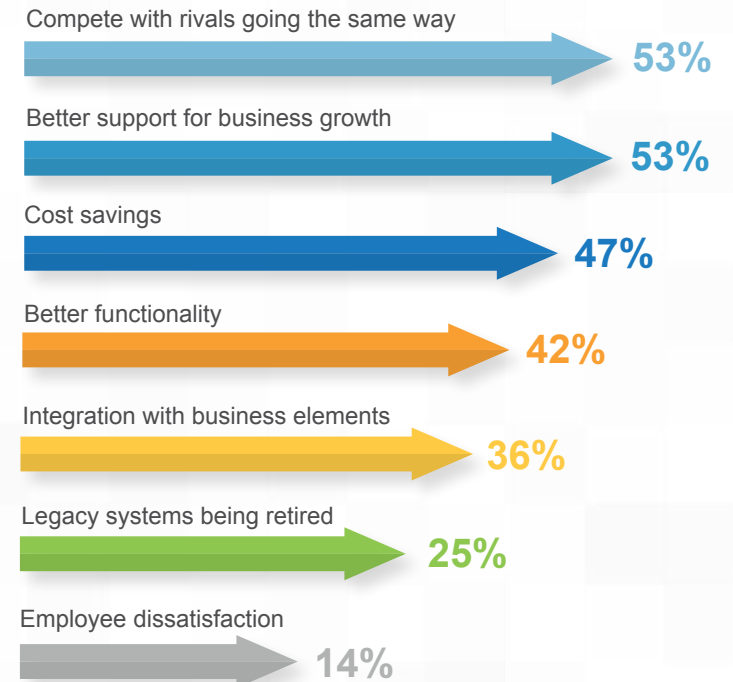
In this context, it’s striking that such a high proportion of IT professionals (47%) also describe shifting to the cloud as a way of reducing costs. The old regime isn’t just notable for limitations on functionality; it’s also becoming increasingly costly to maintain. As

adoption goes mainstream, the conventional wisdom increasingly insists that companies must make their moves or lose competitive advantage.

Other research suggests there are even more reasons to move to the cloud. Deloitte, for example, has cited historic underinvestment by ERP providers, the intensifying battle for available talent, and the need to attract Generation Y workforce newcomers with social collaboration and mobile-friendly technology.

What’s driving the transition to cloud-based HCM?

If your organisation is considering a move to cloud-based HCM, what are the main drivers for it?



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CUSTOMISATION IS VITAL

Regardless of the solutions they're currently running, a large majority of respondents describe the freedom to customise HCM solutions by modifying data fields, labels, validation, calculations and other parameters as important or very important. This shouldn't come as a surprise: every business is different, and every business evolves differently.

In a traditional licensed software setting, customisation can result in profoundly challenging side-effects. Legacy on-premise HCM applications tend to be designed on a lowest-common denominator basis, to cater for the needs that most customers encounter, most of the time. Piecemeal customisation results in complexity. Management becomes difficult, labour costs rise and upgrades become increasingly expensive. Applications running in a private cloud can suffer from similar challenges.

Ideally, well-designed SaaS-based services can help to address this problem by striking a balance between flexibility and complexity. They can offer deep configuration options available via screen-based wizards that allow business leaders to make the system adjust to changes in business logic. They also point organisations towards proven best practices for productivity, insight and good governance. Yet at the same time they conceal back-end code, limiting the opportunity for the kind of in-house customisations that can make life difficult in the future.



"Vendors with the old mindset are very willing to talk about customisation and us bending the product to our will, because from their perspective that is all consultancy dollars. That is not a model we want to be in."

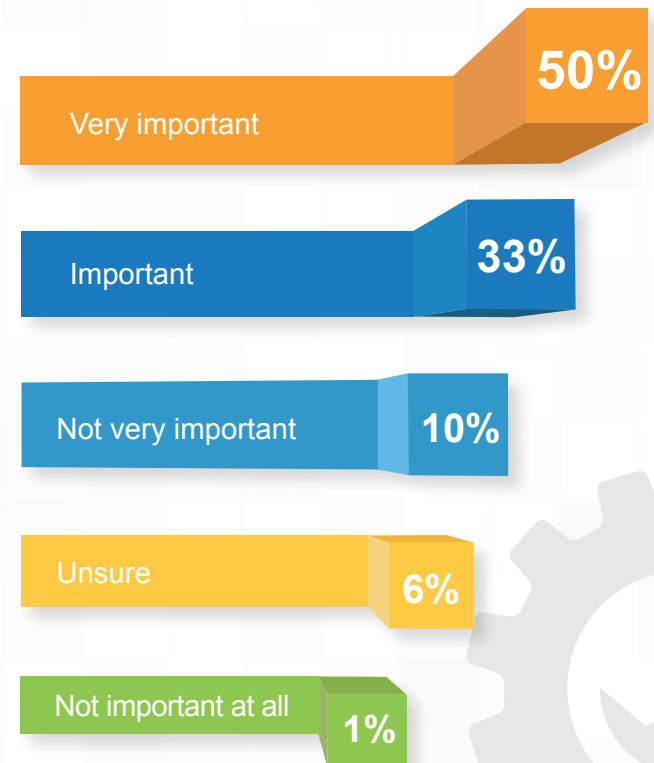
Gary Abbott, senior manager for Global Information Management, Hogan Lovells

The challenge for SaaS vendors involves making the absence of access to back-end code viable for organisations with sophisticated requirements. In the first instance, vendors need to provide customers with the maximum range of useful configurable options. As time goes by, they need to adapt and expand this range of options.

What's not in doubt is the demand for flexibility, whether it's achieved via traditional customisation or cloud-based multi-tenant configuration possibilities. For users, flexibility is an enticing proposition. However, as we'll see [later](#) in this document, the resourcing required to maintain, customise and upgrade legacy on-premise HCM software can be substantial. By minimising these calls on resources, IT departments can maximise the amount of time and money available for innovation.

Importance of customisations in a HCM solution

How important is it for your organisation to be able to customise and modify its HCM solution?



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WHO CALLS THE SHOTS?

We asked our sample of IT professionals who takes responsibility for customisation, modification and integration of HCM solutions within their organisation. (Respondents were allowed to identify more than one department as taking responsibility.)

In four out of five companies, they told us that IT remains involved. In one-third of organisations, and particularly in mid- to large-sized organisations with between 5,000 and 50,000 employees, the HR department takes (at minimum) responsibility for upgrades, customisation and maintenance. In one-quarter of organisations, departmental executives play a role. Departmental executives – from the finance department, for example – tended to play a role within the smaller organisations (1,000-5,000 employees) and the very large organisations (50,000+ employees) in our sample.

In a world where 53% of organisations still use legacy on-premise HCM software and a further 24% run HCM on private clouds, it's hardly surprising that IT professionals say they retain a substantial role.

However, our survey data also points to a substantial amount of cross-departmental collaboration. Overall, one-third (32%) of respondents told us that two or more internal departments share responsibility for customisation, modification and integration.

Power shifts substantially when organisations move to SaaS-based HCM solutions: 56% of companies with SaaS-based solutions told us that responsibility for customisation, modification and integration was shared between more than one department (in most cases, the IT and HR department). In situations like this, IT may well take the lead in integrating SaaS-based HCM with other systems, while HR takes control of customisation and modification. This is another win for cloud/SaaS: because systems are not subject to wholesale custom coding and do not feature “scary” user interfaces or jargon, domain specialists can play a full part in defining how they operate. As a result, HR managers no longer have to lean heavily on IT.

Naturally, the workload accruing to the IT department is much more substantial in companies using legacy on-premise HCM software (where only 28% told us that IT shares responsibility for customisation, modification and integration) and private/hybrid cloud applications (26%).

Collaboration and responsibility-sharing are likely to grow as SaaS vendors increase their share of the market. As deployment and integration grow simpler, decision-making power will continue to diffuse outward across the enterprise, enhancing users' ability to respond to changing business circumstances in an agile fashion.

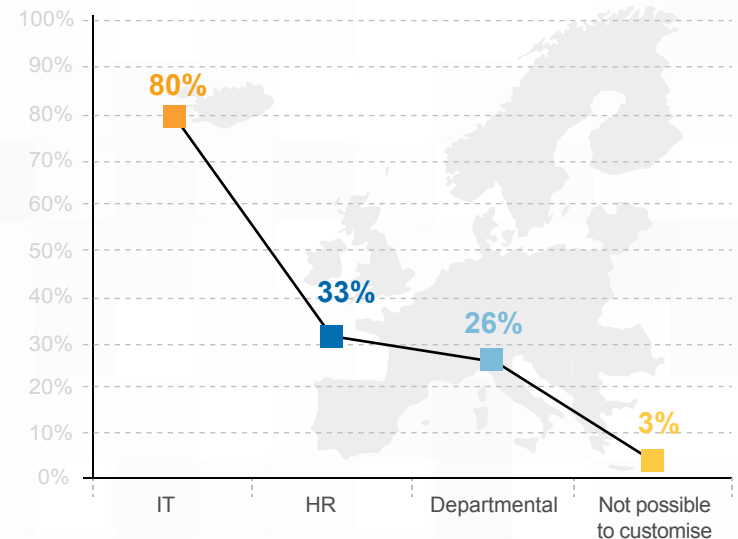


“All we had to do was go in, design our business processes, and then focus on what we needed to do to develop our HR organization. We didn't have to install hardware. We didn't have to develop the system. We didn't have to build the interfaces from scratch. All we had to do was think about how we wanted to run HR. We actually deployed the entire system, with 130 integrations, and went live in 7 months.”

Pete LeBlanc, vice president of global HR programs, technology, CareFusion

Departments Responsible for HCM Solutions

Who is typically responsible for the customisation, modification and integration of your company's HCM solution?



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TODAY'S HCM SYSTEMS EAT UP ADMIN TIME

Upgrading, maintaining, customising and supporting core HCM systems can be an onerous undertaking. Half of the organisations we surveyed say that these activities chew up more than 10 person-hours per month. In addition, the vast majority of companies need to integrate their HCM platform with software that runs other business functions (for example financials and workforce scheduling). Furthermore, 86% of respondents described integration of this kind as “very important” or “important”.

Among IT departments using legacy on-premise HCM software, private cloud HCM and SaaS/public cloud HCM, the amount of time spent on maintenance, upgrades and support varies.

The differences are significant. In legacy on-premise HCM software contexts, 57% of respondents say their organisation spends over 10 person-hours per month on maintenance and support. In private or hybrid cloud deployments, 45% say this is the case. However, the biggest gains in IT labour productivity accrue to organisations using SaaS solutions: only 38% of these organisations say they spend more than 10 person-hours per month on maintenance and support.

Clearly, a key attraction of SaaS cloud-based services is that the bulk of admin work falls into the lap of the cloud service provider. As a result, IT departments can reduce the cost of everyday ‘keeping the lights on’ operations and allocate more time and resources to innovation that helps their companies differentiate themselves.

This of course is one of the great promises of cloud computing and it is nothing less than a sea change in the way IT operates. As business and technology author Nicholas G. Carr has suggested in his book “The Big Switch”, just as we no longer generate our own electricity or worry about ensuring a consistent supply of power, we should no longer worry about IT. Instead it should be treated as a commodity utility that does not put the onus of supply, security and maintenance on the buyer.



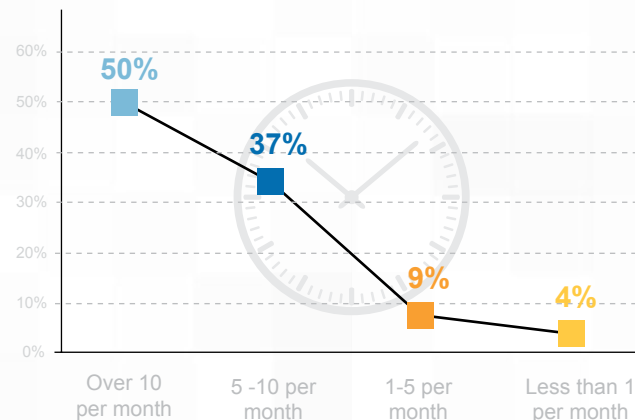
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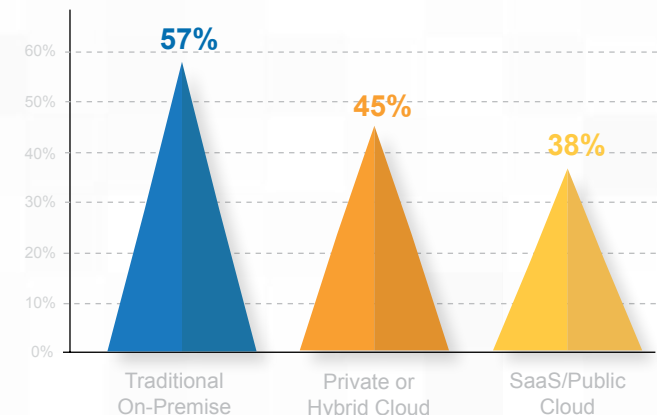


Hours spent maintaining legacy on-premise HCM systems

Roughly how many man-hours does your IT department spend on the configuration, customisation, administration, maintenance, update and support of your core HCM system?



Monthly HCM Labour Cost - Comparison of Person Hours in Organisations (10 plus person hours)



UPGRADES CAN TRIGGER EXTRA WORKLOAD

Upgrade cycles frequently create additional work by wiping out previously customised parameters (fields, labels, processes and so on). For IT departments, the need to start again from scratch simply adds to existing break/fix service workloads, diverting resources away from innovation and value-add differentiation.

Overall, one-third of respondents (36%) doubt their ability to future-proof HCM systems by ensuring that customised elements (for example, fields, labels, business processes) remain intact in the wake of upgrades. (These are the respondents who replied “unsure” or “partially” to the question highlighted on this page.)

Users of HCM applications running on private and/or hybrid clouds seem to encounter the most challenges with upgrades. One-third of these users say that can only partially guarantee the integrity of customised settings in the context of upgrades. A further 13% say they are unsure. The relatively high levels of complexity involved in managing private cloud infrastructure may well explain these problematic responses.



“I’m not caught in that amortization and depreciation loop in which you’ve got to make software last five to seven years. You’ve got to upgrade it, keep it alive. [With Workday] I don’t have data centers, I don’t have DBAs. I don’t have licensing costs. I buy what I need. We tie it together, and we focus on our members.”

Osh O’Crowley, CIO, AAA Northern California, Nevada & Utah

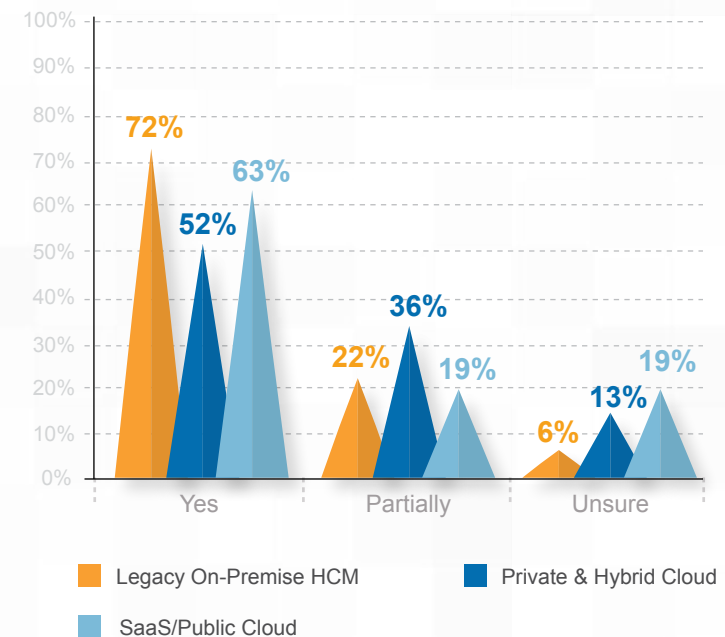
Users of legacy on-premise HCM software have a better sense of what’s possible: only 6% are unsure whether they can preserve settings after upgrades. However, nearly one-quarter of legacy on-premise HCM software users say their control over customised parameters is partial. A majority of this group say they plan to move to a cloud-based system during the next 12 months.

Users of SaaS-based HCM services are more likely than other users to be unsure about the extent to which they can future-proof settings. In this fast-growing segment of the market, this lack of clarity among a minority is perhaps understandable.

Among SaaS users, however, the proportion who say that upgrades/updates have adversely affected custom settings is lower than among other groups. Almost two-thirds say they can preserve customised parameters in the wake of upgrades. This again is one of the great advantages of the cloud era: upgrades are regular and do not require change management on behalf of the user organisation so technology is fresh, innovative and delivered without asking buyers to adapt.

Are your parameters protected?

Can your IT organisation ensure that all solutions changes (e.g., fields, labels, processes, etc.) are upgrade/evolution-protected?



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CLOUD HCM IS ACCELERATING PAST THE TIPPING POINT

Historically, HCM systems have had something of a bad reputation when it comes to usability and manageability. Cloud systems typically offer a better user experience, greater accessibility (for example by mobile clients) and an opportunity to break away from fixed costs, annual maintenance charges and complex integration.

This report underlines the extent to which European decision-makers have already made their moves. Some 30% of our respondents are running HCM solutions in private clouds or hybrid environments that combine public and private elements. A further 16% are running public cloud SaaS-based solutions.

Our survey data suggests continuing acceleration, as mainstream users opt for cloud-based solutions in vast numbers. Of the users we surveyed whose organisations are still using legacy on-premise HCM software:

- **24% plan to make the transition to cloud-based HCM in the next 3-6 months**
- **32% plan to make the transition 6-12 months from now**
- **11% plan to make the transition at some point beyond 12 months**
- **A further 13% describe themselves as “unsure”**
- **Only 20% say “not in the near future”**

Different drivers matter to different-sized companies. Among mid-sized and large companies we surveyed, the need to compete with rival companies and the need to better support business growth are prominent. The smaller organisations we surveyed cite these factors, too. In addition, they place equal prominence on the need to integrate HCM across different parts of the business, and the poor functionality of legacy applications.

Snapshots like this – of a market in full flow towards mainstream adoption – are comparatively rare. Increasingly, the question for IT professionals isn't whether to switch to a cloud-based solution. Instead, it's when, and how.



“It would be easy for us to spend hundreds of thousands of dollars every four years on an upgrade with our old system, and now we're spending nothing. We're literally spending zero dollars on upgrades.”

Mark Newsome, Director of Corporate Human Resources, McKee Foods Corporation



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