Software is Key to HRO Profits

HR TECH EXPERT NAOMI BLOOM GIVES YOU THE COMPLETE BEHIND-THE-SCENES SCOOP ON SOFTWARE PLATFORMS. BY NAOMI BLOOM

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Last month, I proposed that HRO providers who use HRM software that runs one-to-many (or multi-tenant software) could deliver services more cost-effectively. Since cost-effectiveness is the foundation of outsourcer profitability (and therefore viability), this column continues the discussion of cost-effectiveness by examining the HRO provider's choice between using packaged, licensed software and purpose-built, custom software.

Long before there were HRM software packages, HRM software (and most other business software) was custom built for organizations and each piece of HRM software was truly one of a kind. However, by the early 70s, packaged HRM software was becoming available.

Despite the work of software pioneers, it was a long, uphill slog to get IT departments to part with their custom software—and their custom software attitudes. For many years, the primary competitor to HRM package vendors was the in-house IT organization, rather than the other packaged software vendors. It was not until well into the 1990s that the raging debate about whether or not packaged HRM software could meet the needs of large, complex organizations ended. While that debate was occurring, a different set of pioneers in the HRO business were creating their own custom software on which to run benefits administration, payroll, pension payments, compliance, and many other functions that they were offering to an HR community increasingly willing to outsource. Today, nearly all of the successful HRO providers, at least domestically and in the UK, continue to use custom, purpose-built software, much of it designed to run one-to-many.

However, an interesting thing has occurred at the high end of the integrated HRM BPO market. Many high-end providers took on the ERP/HRMS license of their customers and are now using those suites on a highly configured instance per customer basis.

Those in favor of their integrated HRM BPO provider using high-end packaged HRM software say, with good reason, that (1) they must get a return on the fortune they've already invested in licensing and implementing that packaged software; (2) the best HRMS packages bring them the accumulated expertise and best practices not only of these vendors but also of their many customers; (3) the cost to the vendor of maintaining and upgrading the software is spread across thousands of customers; (4) the brand name of the software brings cachet to their organization; (5) there's a whole marketplace of people, including HR people, who are experienced in that software; and (6) none of the integrated HRM BPO providers' with custom software can offer them comparable, global functionality. And as long as such packages continue to be widely licensed, with integrated HRM BPO outsourcing the exception rather than the rule, these points will be persuasive from the customer's perspective.

But from the perspective of the provider, there is merit in custom software, even at the very highest end of the integrated HRM BPO market. As evidence, one could cite (1) the acquisition by Hewitt of Cyborg, perhaps in place of extending their relationship with PeopleSoft; (2) the extent to which Exult minimizes their use of the functionality in the packaged HRMS they've acquired by wrapping them in a proprietary self service layer; (3) Convergys's ongoing analysis of custom options to their SAP platform; and (4) Fidelity's decision to custom build on the dated and never successful HR Access code acquired from IBM in place of their already working Oracle HRMS. Their reasons? I think it's primarily a desire to control costs and the capabilities and stability of their HRM delivery platforms. While the cost of licensed software may be tanking in the wake of the economic downturn and the consolidation upheaval wrought by Oracle's hostile bid for PeopleSoft, HR outsourcers need to control what capabilities they use rather than leaving them in the hands of vendors who are catering primarily to customers who license software for in-house or hosted use. And as I've mentioned before, most of the currently available ERP/HRMS software, which is meant to be licensed by and run for a single organization, was never designed to support multiple organizations or to do many of the other things that make software HRO-ready.

Here we have all the ingredients for another raging debate over custom versus packaged HRM software, at least for integrated HRM BPO services. The solution may be an interesting hybrid approach, such as the one GevityHR takes, in which it runs Oracle's HRMS suite, for which it holds an outsourcing provider license, on a one-to-many basis—laying the foundation for an embryonic, but standardized, HRM BPO offering. **HRO**