

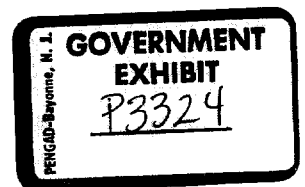
June 25, 2004

Forrester Wave™: HR Management Systems

by Paul Hamerman

FORRESTER

Helping Business Thrive On Technology Change





June 25, 2004

Forrester Wave™: HR Management Systems

Choosing The Right System To Manage Your People

by Paul Hamerman
with Liz Herbert and Andrew Bartels

EXECUTIVE SUMMARY

A human resources management system (HRMS) is a core enterprise application for managing administrative and strategic processes related to an organization's most critical asset — its people. The vast majority of large organizations use an HRMS from one of the three major ERP vendors — SAP, PeopleSoft, or Oracle. In the past, PeopleSoft enjoyed a clear functional advantage, but the gap has narrowed to the extent that the choice is now driven most often by an enterprise's overall ERP strategy. With the upper end of the HRMS market already heavily committed to these vendors, organizations are focusing on consolidating multiple HR systems to a single global instance and expanding the use of self-service and strategic HR components. The midmarket is less mature in terms of HRMS adoption, and the large vendors are battling for share against smaller and more specialized vendors and those emphasizing hosted deployment and process outsourcing services.

TABLE OF CONTENTS

2 **Leading HRMS Solutions Span Administration And Strategy**

HRMS Is Essential For Efficiency And Compliance

4 **HRMS Is A Mature Market But Is Still Evolving**

The Large ERP Vendors Dominate The HRMS Solutions Landscape

Many Other Choices Exist

6 **HRMS Wave Evaluation Criteria Explained**

8 **The Wave Results — A Mature Market With Expanding Capabilities**

RECOMMENDATIONS

10 **Begin With The Essentials**

WHAT IT MEANS

11 **Process Solutions Evolve, Transaction Systems Stagnate**

12 **Supplemental Material**

NOTES & RESOURCES

Forrester surveyed seven vendors for this report: Ceridian, Kronos, Lawson Software, Oracle, PeopleSoft, SAP, and Ultimate Software. ADP and Meta4 were also invited, but chose not to participate.

Related Research Documents

"IT Trends 2004: Human Resources Management Applications"
November 25, 2003, IdeaByte

"Most Large Companies Are Moving Toward Global HR Technology Deployment"
September 19, 2003, IdeaByte

"Market Overview 2002: Human Resources Management Systems — Breaking Away From the Back Office"
August 30, 2002, Planning Assumption

"Comparing High-End HR Systems: Gap Narrowing Among the Leaders"
November 26, 2001, Planning Assumption

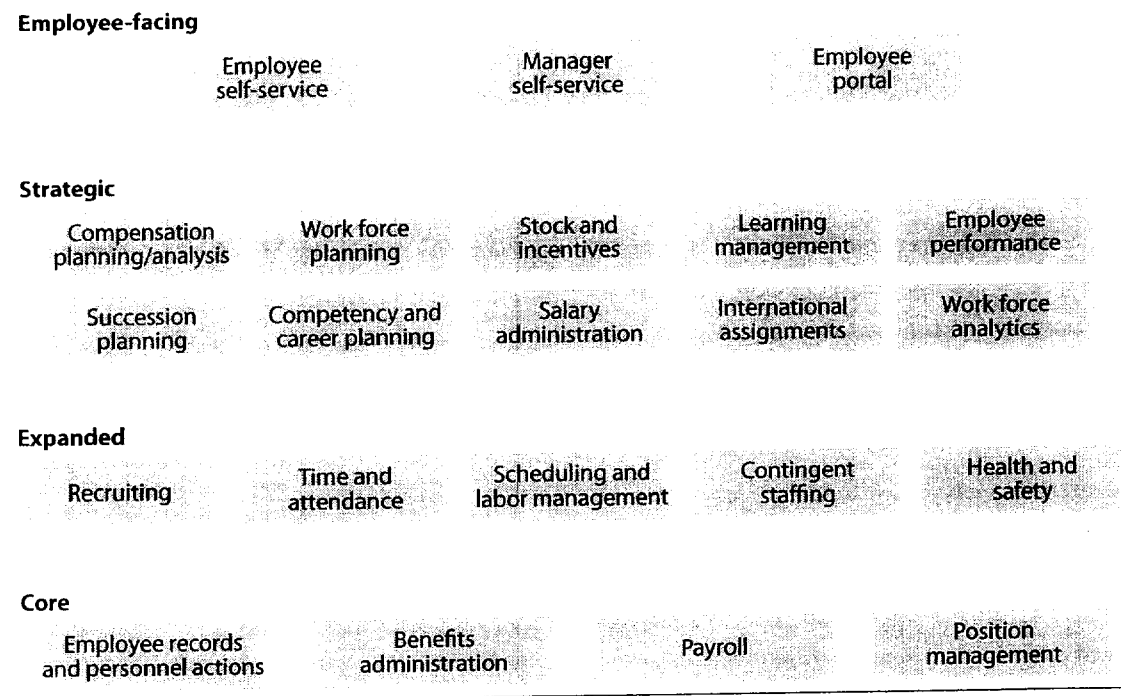


LEADING HRMS SOLUTIONS SPAN ADMINISTRATION AND STRATEGY

The heritage of HRMSes is the HR back office — supporting administrative tasks for employee records and payroll. Today’s HRMS solutions, however, are far more comprehensive, containing elements for strategic human capital management and online employee and manager interactions. The key HRMS components are described below (see Figure 1).

- **Core functions include personnel administration, benefits, and payroll.** These functions represent the transactional core of the system and are the most mature. At the heart of these functions is the employee record, which serves important compliance and operational purposes as the record of who is currently employed by or who previously worked for the company.
- **Expanded functions include recruitment and time and attendance.** These functions have improved as integrated HRMS components, but best-of-breed applications for recruitment and for time and attendance are still used by most companies.

Figure 1 HRMS Key Components



Source: Forrester Research, Inc.

- **Employee and manager self-service maximize process efficiency.** Integrated HRMS self-service has largely replaced homegrown and bolt-on approaches. With HR processes historically dependent on paper, deploying Web-based self-service processes has generated significant ROI for large companies. Such firms are now progressing beyond self-service applications to create a comprehensive online employee experience that delivers extensive content, communications, and self-service capabilities well beyond the scope of HR.¹
- **Strategic functions enhance employee value.** Beyond the efficiency of automated processes, HR systems optimize the value of human capital through performance and competency management, training and e-learning, and reward programs. These functions are finally reaching competitive levels of functionality in the high-end HRMS offerings, but much less so in midmarket and hosted offerings.

HRMS Is Essential For Efficiency And Compliance

Any company with more than 100 employees should recognize that a centralized HRMS is an essential business application. Personnel-related costs (e.g., salary and wages, bonuses, and benefits) represent 40% to 60% of the total expenditures of most businesses. The mission-critical nature of the HRMS is based on the following capabilities.

- **Manage personnel costs.** The system is used to plan and budget salaries and positions, maintain consistent compensation and promotion practices, control hiring, and manage layoffs.
- **Operate efficient business processes.** The system supports myriad HR business processes, including hiring new personnel, keeping employee records up to date, paying employees, and managing benefits. Efficiency gains come from making these transactions directly accessible to employees and managers without paper and clerical intermediaries.
- **Comply with regulations and manage legal exposures.** Perhaps the most compelling reason to invest in an HRMS is compliance and risk management. Numerous compliance laws and risks exist related to equitable pay, overtime, time off, hiring practices, employee conduct, and working conditions. The HRMS, as the system of record for employees, helps to meet compliance obligations and manage risks.
- **Optimize the value of human capital.** Even for businesses that are heavily invested in machinery and physical infrastructure, employees are the most valuable corporate asset. Companies with a strong HR function will focus on performance, employee development, and rewards programs to achieve better retention and higher work force productivity. A comprehensive HRMS supports these initiatives.

HRMS IS A MATURE MARKET BUT IS STILL EVOLVING

Forrester estimates that the worldwide market for human resources management applications is approximately \$1.5 billion in annual license revenues (includes hosted application rental but does not include outsourced transactional services, such as payroll processing) and \$4.6 billion overall, including maintenance and services revenues.² We have observed the following trends in HRMS.

- **Market growth overall is slow.** Most large companies have already invested in enterprise-class HRMS software but are adding expanded capabilities (e.g., employee portals, recruitment, analytics, and strategic components) and consolidating their HR systems with a single vendor. Most new customer activity is coming from midsize and smaller companies replacing older and inadequate systems or buying HRMS for the first time. We are seeing a solid recovery in HRMS licensing activity in 2004 compared with the depressed levels of 2002 and 2003, but we expect that future growth in this application area will primarily be driven by recurring revenue (i.e., maintenance and hosted delivery), rather than by licensing activity.
- **Hosted HRMS solutions are growing.** Adoption of hosted HR applications is increasing among small and midsize businesses. Increasingly, the application is provided on a rental basis, with a multitenant architecture supporting multiple customers on the same technical environment — a process that is often more cost-effective than hosting each customer as a separate installation. Two of the vendors featured in this report, Ultimate Software and Ceridian, use this as their primary delivery model. Others vendors emphasizing this delivery model include ADP and Employease.
- **Standalone HRMS vendors are disappearing.** Whereas the HRMS marketplace has traditionally had many best-of-breed vendors, most HRMS solutions in the current market are provided as components of ERP suites or as offerings from large service providers. Recent best-of-breed acquisitions include Cyborg Worldwide by HR services provider Hewitt Associates, Meta4 by ERP provider Groupe Adonix, Infinium by ERP provider SSA Global Technologies, and Rebus HR Group by IT services provider Northgate Information Solutions.

The Large ERP Vendors Dominate The HRMS Solutions Landscape

Our research clearly shows that the three large ERP vendors — SAP, PeopleSoft, and Oracle — dominate the high end of the market with sophisticated HRMS offerings. The other four vendors profiled in this report — Ultimate, Lawson Software, Ceridian, and Kronos — have solid HRMS offerings that are primarily centered on the midmarket, although some large customers enter the mix. Summary comments of the vendors profiled in this report are described below.

- **PeopleSoft.** With an impressive share of Fortune 500 companies and the most comprehensive product offering, PeopleSoft maintains a leadership position in HRMS.
- **SAP.** Global reach and strong international capabilities enable SAP to lead among large companies based outside North America.
- **Oracle.** Its attempt to buy PeopleSoft has been misconstrued by some observers as a need to buy HRMS capability. In fact, we find that Oracle has a substantial, competitive HRMS offering in its own right that has made substantial progress in the past few years.
- **Lawson Software.** Focused heavily on a several key services verticals (retail, healthcare, government, and professional services), Lawson has a good, mature HRMS offering.
- **Ultimate Software Group.** With good functionality supporting core HR and payroll functions, Ultimate has advanced its technical architecture for hosting. Ultimate has struggled financially as a best-of-breed HRMS vendor and hopes to achieve financial stability with a recurring revenue business model built on the hosted offering.
- **Ceridian.** As one of the leading players in payroll and outsourced services, Ceridian offers an improving array of hosted HRMS solutions.
- **Kronos.** The market leader in time and attendance has expanded its application footprint to human resources management with a 2002 acquisition of a Web-based HRMS oriented toward the midmarket.

Many Other Choices Exist

The vendor landscape consists of a number of other significant players, including vendors in the following categories:

- **Outsourcing and hosting providers.** ADP, the market leader in payroll outsourcing, offers several HRMS solutions and (like Ceridian and Ultimate) emphasizes a hosted model.³ Cyborg, which provides a mature HRMS solution suitable for medium to large companies, was recently acquired by Hewitt to expand its HR outsourcing capability to include payroll. Employease is a pure-play subscription HRMS service for the US market. TietoEnator is a leading HR and payroll services provider in the Nordic countries.
- **ERP vendors.** Many ERP software vendors, including those included in this Wave report, offer integrated HR management capabilities. PeopleSoft's EnterpriseOne product (formerly known as J.D. Edwards) has an integrated HRMS module (not included in our assessment of PeopleSoft's Enterprise HRMS). Microsoft Business

Solutions product lines (Axapta, Navision, Great Plains, and Solomon) include basic HRMS capabilities, with more functionality in Axapta. Other ERP vendors offering HRMS functionality include Geac Computer, SSA Global Technologies, Intentia, and IFS.

- **International HRMS providers.** Meta4, recently acquired by Adonix, has an international customer base, including Spain (its home base), Portugal, Latin America, and South America. Rebus is the leading HR solution provider in the UK, with a client base that extends to other European countries.
- **Niche players.** Best Software, the US operation of the Sage Group, leads in the lower end of the market with its Abra product and an extensive reseller channel. Numerous niche HRMS players target specific geographies, including StarGarden (Canada), CCMX (France), Frontier Software (Australia), and Works Applications (Japan).

HRMS WAVE EVALUATION CRITERIA EXPLAINED

The Forrester Wave has three major elements — current offering, strategy, and market presence. In this HRMS evaluation, we evaluated 46 criteria related to the current offering, 11 criteria for the vendor's strategy, and nine criteria for market presence — a total of 66 criteria organized into 20 categories (see Figure 2).

Current Offering

The functional criteria used in this evaluation are representative of the broad footprint of human resources processes that the leading HRMS solutions have evolved to cover. Companies and public sector organizations evaluating these solutions may not need all of these functions, and should adjust the framework to their needs. We also evaluated the offerings in terms of technology and service capabilities to provide an overall picture. Organizations evaluating specific HRMS solutions should talk to similar organizations actively using the software to understand implementation challenges and service levels.

Strategy

A vendor's strategy and vision, and its ability to invest in continued product development, indicate its customer commitment and potential long-term viability. Rather than trying to do it all, the vendor should demonstrate the ability to maintain value-added relationships with systems integrators, technology leaders, and complementary application vendors.

Figure 2 High-Level Criteria For HRMS Wave

Current offering	
Staffing and recruiting	Plan and recruit the workforce, and bring new hires onboard.
Personnel management	Maintain employee records and data and manage positions and labor relations.
Compensation	Organize compensation structures, compare pay levels to the market, award and manage incentives and stock.
Benefits	Administer employee benefits plans and reimbursement accounts and manage time off programs.
Payroll	Pay employees in multiple countries.
Time and attendance and labor management	Capture time worked and convert the time data to its payroll value; optimize employee working schedules and analyze labor productivity and utilization.
Development	Assess employee performance and skills and provide career development.
Business-to-employee (B2E)	Deliver content and self-service applications to employees and managers.
Risk management	Manage compliance risks related to health and safety and administer workers' compensation.
Technology	Provide the technical foundation for deploying the system effectively.
International	Provide international support, including multiple languages and currencies, localizations, and global employee data formats.
Hosting and outsourcing	Provide value-added services for application hosting and business process management.
Customer support	Enable customers to effectively utilize, maintain, and upgrade their systems.
Strategy	
Product strategy and vision	Articulate a coherent long-term vision for human capital and provide a road map for system improvements.
Technology strategy and vision	Evolve the technology architecture for openness, usability, and flexibility.
R&D	Invest in the continued development of the product.
Strategic alliances	Maintain strategic alliances with services, complementary software, and technology partners.
Market presence	
Financial stability	Demonstrate a track record of growth and profitability, with working capital resources to continue operations.
Installed base	Show success in terms of customer base and employee lives covered.
Delivery footprint	Provide a sales and distribution network, as well as an implementation ecosystem.

Source: Forrester Research, Inc.

Market Presence

We assessed each vendor's financial viability, customer base, and sales/implementation footprint. This component of the Wave is reflected by the size of the circle plotted on the graph. Vendors with the largest market presence are not always the best in terms of capability and strategy. In the case of HRMS, however, the bigger players have evolved to higher levels of functional breadth and depth.

THE WAVE RESULTS — A MATURE MARKET WITH EXPANDING CAPABILITIES

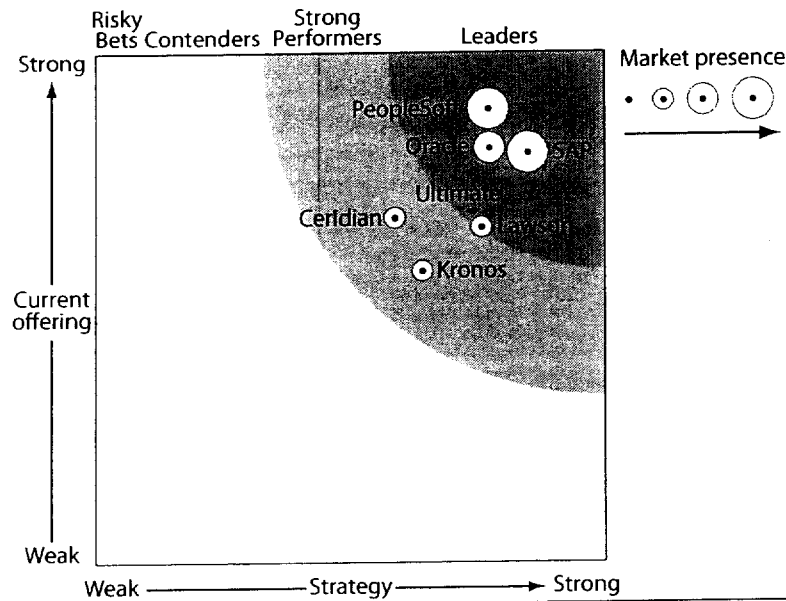
Forrester graded each vendor against the 66 criteria based on questionnaire responses, supplemental information, and our existing knowledge of this software market segment (see Figure 3). We reviewed the scoring of each vendor with that vendor prior to publication of this report. The details of our evaluation of each vendor can be viewed by clicking on the Excel spreadsheet file above the Wave graphic.

The following are our observations on the results.

- **Solution maturity is strong.** Since this is a mature application market, core functionality related to personnel administration, benefits, and payroll is solid across the board for all the vendors evaluated. Solutions designed for large, multinational companies (i.e., PeopleSoft, Oracle, and SAP) tend to have considerably more breadth in areas, such as performance management, learning, and time and attendance.
- **Multinational companies have fewer choices.** Global features and localizations for HRMS tend to be far stronger among the big three ERP vendors, effectively narrowing the choices for companies with significant numbers of employees in multiple countries. It is a positive development that these solutions have improved substantially in technical scalability and country-specific support to the extent that many companies are deploying a single global HRMS, replacing fragmented systems.⁴
- **Midsize companies have more choices.** Companies between 500 and 5,000 employees may choose one of the high-end HRMS solutions or may choose a vendor that primarily focuses on the midmarket (e.g., Lawson, Ultimate, Ceridian, Kronos). The choice will depend on a number of factors, including cost, complexity versus sophistication, and international requirements. Generally, companies focused on automating the core HR processes of personnel management, benefits, and payroll in a single country will have an easier time implementing and maintaining a midmarket solution.

Figure 3 Forrester Wave™: HRMS Vendors, Q2 '04

The spreadsheet detailing this Forrester Wave™ is available online.



Source: Forrester Research, Inc.

- **High-end solutions are moving toward parity.** The scoring indicates that the three leading solutions are tightly bunched, each with a very high level of functionality. PeopleSoft holds the leadership position in terms of functionality but only by a slim margin. While PeopleSoft is still the system of choice for companies based in North America, SAP dominates outside North America, with the highest level of localizations, as well as extensive language support. Oracle has made noteworthy progress with its solution during the past few years. Both SAP and Oracle have bolstered their ability to keep PeopleSoft out of their own ERP installed bases.
- **Usability is still challenging for casual users.** Although HR self-service functionality has expanded and improved in the past few years, usability remains a challenge for infrequent users. SAP, historically usability-challenged, is releasing an enhanced user interface for employee and manager self-service in 2004 that features its new “people-centric” portal-based user interface. Usability continues to advance for other vendors as well, but many large companies have found it necessary to build customized self-service user interfaces for packaged HR systems.

RECOMMENDATIONS

BEGIN WITH THE ESSENTIALS

- **Don't bite off more than you can chew.** We find that many midsize companies with relatively straightforward needs are swayed by the allure of high-end capabilities (and slick sales presentations) from top vendors, but actually use only a fraction of these capabilities. Unless significant international requirements exist, midsize companies should use HRMS solutions with less complexity and lower costs of ownership, and supplement core HRMS capabilities with best-of-breed solutions (e.g., time and attendance) where appropriate.
- **Avoid licensing additional HR applications until you are ready to deploy them.** The expanded functionality of comprehensive HRMS suites could take several years to implement. Vendors are eager to bundle additional modules that often are not used within a reasonable time frame and become "shelfware." Limit license agreements to core applications that will be implemented within two years, with options to add modules later.
- **Use a single core HRMS for the entire organization.** Many large global companies are standardizing on a single HRMS to lower IT costs and provide better visibility over headcounts and people costs. Supplement the core HRMS with best-of-breed for certain processes (e.g., succession planning, compensation analysis, time and attendance) where HRMS functionality is not complete.
- **Consider outsourcing options.** Outsource your HRMS if the system meets your needs without customization and if you are inclined to outsource payroll processing. Consider a rental model if headcount is relatively low (i.e., under 1,000 employees) and if you expect to use the system for fewer than five years. Outsource selected HR processes where expertise, compliance, or pure transactional execution is needed (e.g., pension, payroll, or reimbursement accounts). Remember that outsourcing HR systems and processes is not necessarily a path to lower costs, but it often makes sense for other reasons.

WHAT IT MEANS

PROCESS SOLUTIONS EVOLVE, TRANSACTION SYSTEMS STAGNATE

- **Best-of-breed HR process software will evolve as components.** As the major enterprise application vendors evolve to services-oriented architectures, opportunities will develop for specialized snap-on components (e.g., performance, recruitment, tax calculation). Open integration standards and frameworks will enable this componentization.
- **Specialist HRMS software vendors will disappear.** HRMS is part of a larger application architecture that includes portals and integrated ERP applications. Remaining HRMS-only vendors will be acquired by larger application vendors and business process outsourcers.
- **Outsourced HRMS will grow for SMBs.** HR transaction management and payroll services can be easily rented by companies lacking IT resources and economies of scale. Alternatively, companies may elect to outsource the execution of transactions, including systems and HR administrative staff. Strategic processes for employee development, performance, and compensation will be less likely to be outsourced than transactional processes.

SUPPLEMENTAL MATERIAL

Methodology

Forrester developed the evaluation framework and reviewed it with the vendors invited to participate in this research project. The vendors were then asked to complete a questionnaire to describe their capabilities and provide relevant information related to the criteria. Forrester scored the vendor capabilities to produce the Wave rankings based on information submitted by the vendors, as well as our existing knowledge of this application category. Individual vendor scores and comments were reviewed with the respective vendors prior to publication of this report.

Companies Surveyed For This Document

Ceridian	PeopleSoft
Kronos	SAP
Lawson Software	Ultimate Software Group
Oracle	

ENDNOTES

- ¹ The concept of the online employee experience is described in the GigaWorld 2004 IT Forum presentation for Session 23G, "Taking HR Applications To The Next Level: Building The Online Employee Experience." Attendees can access this content on <http://www.forrester.com/Events/Previous>.
- ² The enterprise application market will experience minimal growth for the next three years, with incremental improvements in the midmarket offset by continued weakness at the high end. See the September 26, 2003, Planning Assumption "Enterprise Applications: Even New Architectures May Not Bring Market Back to Life."
- ³ ADP's high-end offering, Enterprise HRMS, is a derivative of an early (circa 1993) version of PeopleSoft's HRMS.
- ⁴ HR consulting firm Towers Perrin surveyed 70 large companies in 2003 and found that 28% had a worldwide HRMS and 52% were planning to move to a global HRMS within 18 months. See the September 19, 2003, IdeaByte "Most Large Companies Are Moving Toward Global HR Technology Deployment."

Helping Business Thrive On Technology Change

Headquarters

Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617/613-6000
Fax: +1 617/613-5000
Email: forrester@forrester.com
Nasdaq symbol: FORR
www.forrester.com

Research and Sales Offices

Australia	Japan
Austria	Korea
Brazil	The Netherlands
Canada	Poland
France	United Kingdom
Germany	United States
Hong Kong	Spain
India	Sweden
Israel	

*For a complete list of worldwide locations
visit www.forrester.com/about.*