



# HR SaaS Solutions for Better Business: *A Selection Guide*

A research report



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### **About This Report**

This report was developed and written by the senior staff of Saugatuck Technology Inc. This report is based on independent research developed and conducted by Saugatuck Technology Inc., which is solely responsible for the analysis, conclusions, and recommendations presented in this report. The publication of this report was funded by Plateau Systems Inc.

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Saugatuck Technology Inc. provides subscription research and management consulting services focused on the key market trends and disruptive technologies driving change in enterprise IT, including SaaS, Cloud Infrastructure, Open Source, and Enterprise Social Computing.

Founded in 1999, Saugatuck is headquartered in Westport, Connecticut, with offices in Boston, Santa Clara, CA and Frankfurt, Germany. For more information, please visit [www.saugatech.com](http://www.saugatech.com), or call +1.203.454.3900.

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“We’re very familiar with benefits of SaaS. The key benefit is the removal of capital software costs from our annual planning.”

- VP Planning; Large US-based business services provider

## INTRODUCTION

Only a few years after they first appeared, software-as-a-service (SaaS) solutions have begun helping Human Resources (HR) executives and professionals improve their ability to accomplish critical goals, which in turn is helping HR to improve the ability of their firm to succeed in business.

But the rapid rise of SaaS for HR has brought a fast-growing number and range of solutions and providers into the marketplace. Making the wrong choice will change how the HR organization works, and can severely restrict any HR organization’s ability to deliver more and better service at less cost. The choices of inadequate SaaS solutions (and providers) can also easily raise their long-term costs to, and above, the level of traditional solutions.

Research conducted by Saugatuck Technology with more than 200 HR executives and professionals in early 2010 indicates that understanding and applying three core criteria – *Configurability*, *Adaptability*, and *Integratability* – will enable HR executives to make the right choices in SaaS solutions. Four more criteria help select the right solution providers: *Viability*, *Support*, *Implementation*, and *HR Experience and Knowledge*.

The challenge is understanding where, and why, SaaS solutions help HR executives and professionals improve their abilities to deliver on critical responsibilities.

This research report provides insight and guidance to educate HR executives on just those topics. We utilize data and analysis from Saugatuck’s recent survey of SaaS use, benefits, concerns, and costs, and interviews with HR and IT professionals experienced in the acquisition, use, and management of SaaS solutions. In the end, we will find how SaaS helps HR executives and professionals succeed – and helps their companies grow.

## Defining Software-as-a-Service (SaaS)

Software as a service (SaaS) is a means of acquiring and using software via one or more networks, typically via the Internet. SaaS applications reside on one or more servers located on an internet-connected platform; little or no software is actually located on the users’ devices (e.g., servers, desktop, laptop, mobile phone, PDA). SaaS is, in effect, software securely and reliably outsourced to one or more providers. SaaS is an important component in the much larger concept of Cloud Computing (or “The Cloud”), which also includes the ability to buy, use, and manage traditional computing, storage, and other traditional IT capabilities as on-demand services, via Internet and similar networks.

With SaaS, users do not need to buy, install, and maintain applications. There are usually costs for implementation, and SaaS business applications are typically best installed and optimized by trained professionals. But these costs tend to be far less than those for traditional, on-premise applications. And after implementation, all maintenance and upgrades are performed by the SaaS provider, on its own software and servers. As a result, the key benefits of SaaS center on low cost of ownership; there is little or no cost to the customer other than usage and secure internet access. These benefits are helping to drive very rapid, widespread SaaS adoption in all aspects of business, from desktop applications to departmental solutions to core, critical business systems.

SaaS may be acquired, used, and paid for in a variety of ways. The most common ways include establishing an account and acquiring a license to use the software from the provider as needed, when needed. The provider may charge per use, monthly, or annually; and most providers offer group licenses that reduce the cost per user significantly.



### SAAS MUST MEET HR NEEDS

“SaaS makes it easy for us to keep up. We can get out of the software business. We can keep our IT guys doing more productive stuff than maintaining someone else’s software.”

- Director, Human Resource Administration, US-based energy services firm

To evaluate SaaS solutions and providers for HR, we first must figure out what HR executives and professionals require. What will help accomplish core HR goals and responsibilities?

Saugatuck survey and interview research with HR executives in early 2010 indicates that HR executives and professionals are most concerned about their ability to fulfill five core HR responsibilities, as follows:

- Acquiring & retaining key talent
- Developing key talent
- Aligning employee performance with business results & compensation
- Building leadership capabilities
- Supporting organizational innovation & change

The ability to find, develop, and reward key talent is critical to maintaining and improving any business’ competitive position. The economic turmoil of the last 18 months put a significant strain on employees, and organizations are realizing that they must put systems and processes in place to make sure the right people are in the right job, at the right time to support the companies’ objectives. Business strategies and priorities shifted during the most recent economic cycle, and companies are now moving into a phase where acquiring and developing key talent is critical to their ability to remain relevant and competitive.

In an increasingly global marketplace, the search for and management of talent both become global, providing more (and more varied) choices and sources while also creating more compliance requirements that must be integrated and managed effectively. Effective talent management requires the ability to develop talent and leaders from within the organization and a demonstrable ability to align individual performance with business results and compensation.

To accomplish this, HR organizations need to establish themselves as leaders within the business. That leadership requires a proven ability to develop, implement, and support a wide-ranging series of business changes, so the company can anticipate and respond to market changes quickly and cost-effectively. These changes, in turn, affect the ability of the company to find, keep, and manage key talent, creating a cycle that repeats (or, creating a repeatable cycle).

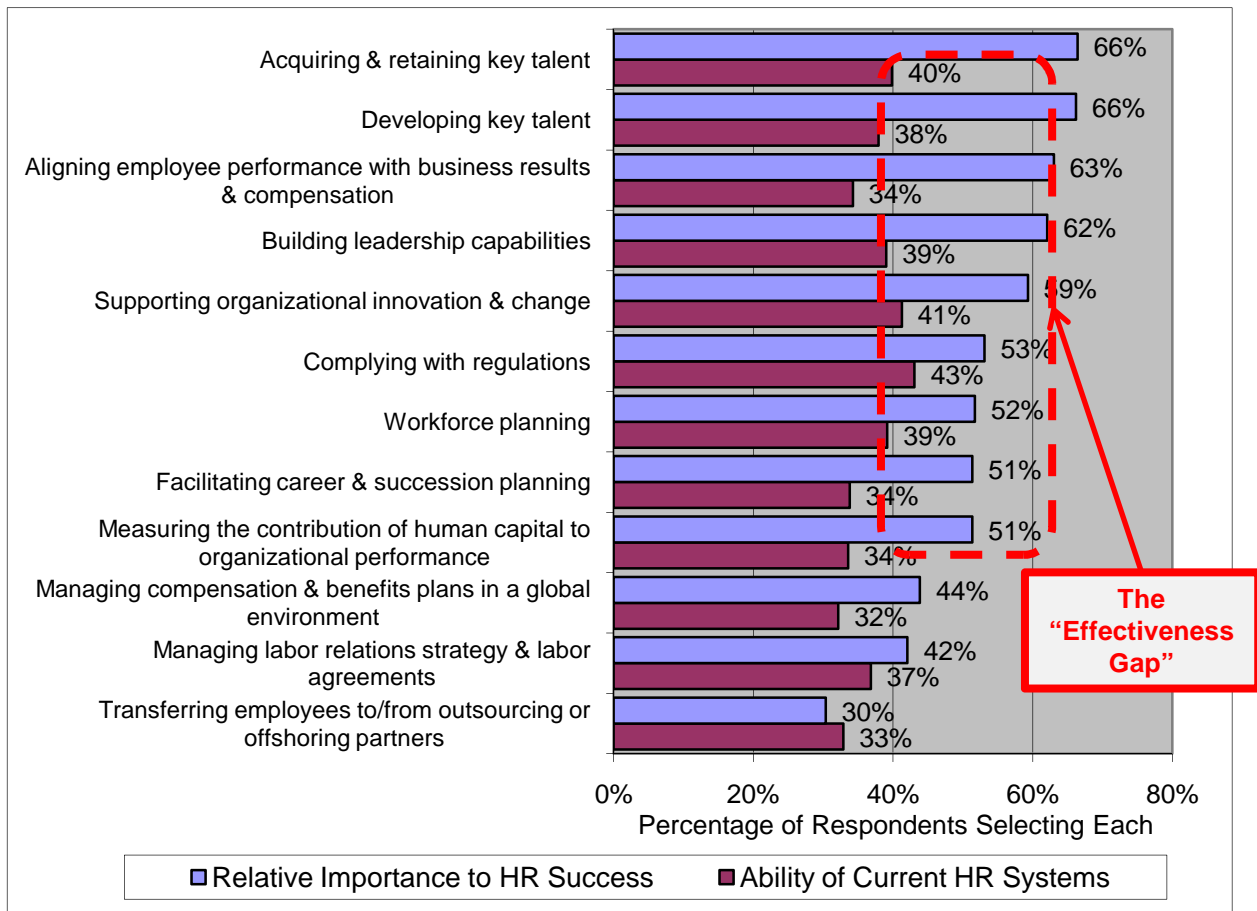
According to Saugatuck’s latest research, SaaS is seen as needed by HR executives to create and meet these leadership abilities.



**WHERE DOES SAAS FIT WITH HR PRIORITIES?**

Unfortunately, HR executives indicate to Saugatuck that their current systems are far less than effective in helping them to meet these goals. Figure 1 summarizes what Saugatuck calls “The Effectiveness Gap” between top HR priorities and the abilities of existing HR systems to help HR professionals meet those goals.

**Figure 1: HR Priorities vs. Abilities of Existing HR Systems**



Source: Saugatuck Technology Inc. global web survey, Feb. 2010; n = 226; multiple responses allowed

The top, blue bars in Figure 1 represent the relative ranking by HR executives of how important fulfilling each of a series of responsibilities is to their ability to contribute to their organization’s success. The percentages indicate the percentage of HR executives ranking each as “extremely important” or “very important.”

The lower, maroon bars represent the answers of the same HR executives when asked, “How effective are your current Human Resources systems at helping you address each of these priorities?” The percentages indicate the percentage of HR executives ranking each as “extremely effective” or “very effective.”

Figure 1 clearly shows that HR executives see their current systems as being much less than optimal for their needs. And the biggest “effectiveness gaps” are found among the most-important HR priorities, including those related to finding, keeping, and managing key talent – and performance.



“We went with a SaaS solution because it fit what we needed, and because the long-term cost was extremely low compared to upgrading or adding on to our existing systems.”

- VP HR, Multi-national electronics manufacturer

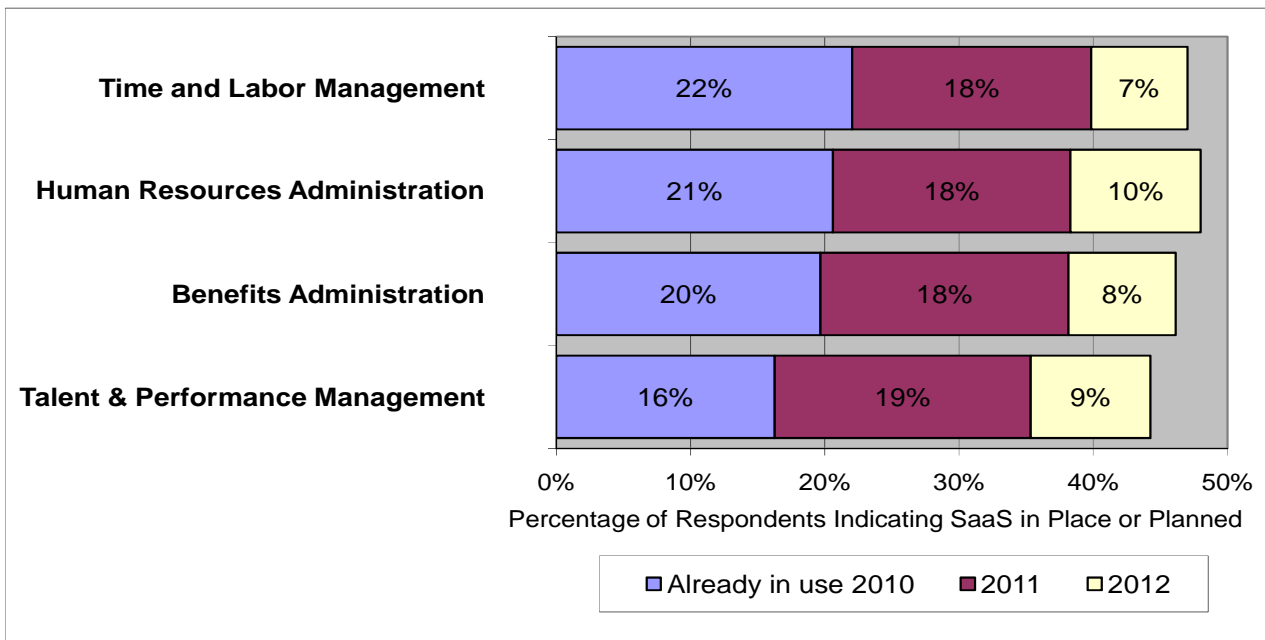
The abilities of such systems can often, but not always, be improved through upgrades, including the purchase and implementation of additional modules, upgrading to newer versions, and improving the technological integration capabilities. Unfortunately, such upgrades tend to be relatively expensive by themselves, and they rely significantly on highly-skilled resources to implement and optimize. It tends to be a very “hands-on” experience, requiring relatively expensive hands.

HR executives and professionals have thus been either postponing significant upgrades, or seeking alternative means of improving their abilities to meet critical priorities and responsibilities. Increasingly, SaaS is one of those means.

Saugatuck’s 2010 survey and interview program with HR executives clearly shows that Cloud-based solutions – including SaaS – are seen as a means of helping to bridge the effectiveness gaps and improve HR professionals’ ability to manage their key responsibilities.

This confidence is translating to action. As Figure 2 indicates, almost 40 percent of executives surveyed indicate plans to implement SaaS for one or more core HR systems between now and YE 2011, with nearly 50 percent planning to have SaaS-based, core HR Administration apps in place by YE 2012.

**Figure 2: Core HR SaaS Applications in Place or Planned, 2010 - 2012**



Source: Saugatuck Technology Inc. global web survey, Feb. 2010; n = 226; multiple responses allowed

Such aggressive interest and acquisition plans have brought a widening range of solutions and providers into consideration, from established HR software providers to long-time SaaS players to a wide variety of newcomers.

The next question, then, is how to make the most effective choices?



## SOLUTION SELECTION

“We went with SaaS because it was very easy to see how it would help us not have to invest in the same, expanding, IT resources over time.”

-VP, Benefits Planning and Administration, large US-based bank/financial services provider

When it comes to selecting SaaS solutions, HR executives provided Saugatuck with sets of selection criteria, based on providers’ ability to deliver solutions for real-world HR.

The first set is what Saugatuck calls “table stakes” – *the bare minimum of demonstrated abilities that any provider must be able to prove to get in the door*. These include the following:

- The ability to reduce capital and operating costs,
- The ability to simplify software management, and
- The ability to ensure data security and privacy.

Providers must be able to show real-world proof – i.e., customer cases and references – of these abilities before proceeding to the next phase of selection.

Ranking just below these “table stakes” in importance are a range of abilities needed to make solutions work within HR as painlessly and as effectively as possible. These fall into natural sets of **Configurability**, **Adaptability**, and **Integrability**, all closely and similarly ranked by HR executives, as follows:

- **Configurability.** Any solution must include the ability to work as the HR organization really works. This includes having a powerful, and realistic, set of rules for enabling and managing the HR organizations’ operations and processes as they exist and as they are expected to exist. A key question to ask of the solution and provider is, “Does this solution force my organization into any painful changes in order to use it?”
- **Adaptability.** Any solution must be able to grow with HR and with the business as they change. And changes in the solution, made by the provider over time, must not thwart HR’s needs or the needs of the business to grow and change. A key question to ask in this case is, “How can, and will, the solution and provider change and adapt to my changing business realities?”
- **Integrability.** Any solution must include abilities to integrate with existing on-premise systems, and with other SaaS systems. While some SaaS solutions can effectively replace practically all existing software and systems, the reality is that such change can be extremely expensive and disruptive to HR and to the business at large. For the foreseeable future, few HR organizations will completely “rip and replace” their existing systems. The more “normal” path will be to use SaaS solutions to replace some existing systems, and to improve the capabilities of others, and to migrate more and more HR operations to SaaS over time. Thus any SaaS solution must be able to integrate with existing systems and operations. And as HR responsibilities and roles expand, HR systems and operations will interact more, and more deeply, with other areas of the business, and with outside providers and partners.

*Solutions must also show strong ability to integrate with other SaaS and Cloud-based solutions.*



“Choosing our provider was as important, or more important, than choosing our SaaS applications.”

-VP HR, multi-national durable goods manufacturer

## PROVIDER SELECTION

Providers must be evaluated at least as thoroughly as are solutions. As one of the first research and consulting firms in the on-demand, SaaS and Cloud IT markets, Saugatuck has developed broad and deep experience and expertise on key aspects of SaaS provider capabilities. And the most important is *viability*.

Simply because its offerings are delivered and used via SaaS does not reduce the importance of provider viability. SaaS is in the business for the long haul. Any buyer of SaaS must have a strongly positive sense of the provider’s ability to stay in business and to continually improve its offerings over the long-term. Without continuous improvement and innovation, a SaaS provider’s solutions are little better than traditional software.

Saugatuck finds that whether a SaaS provider is an emergent firm or an established firm is largely unrelated to their long-term viability. Some startups have enough funding and other resources to last many years and continually improve offerings without a strong revenue base; some established firms with long histories are facing bankruptcy and dissolution.

Meanwhile, some providers are being acquired; some are investing in and pursuing new industries, others are acquiring other providers. Any of these cases can cause significant disruption to the provider’s business and its ability to support buyer and user needs. Any SaaS provider must also understand the business of SaaS. The shift from a traditional software business to a service-oriented SaaS business model is challenging for providers. The SaaS model requires an ability to innovate, and to deliver innovation and improvement on a regular and frequent basis. Look for providers with a track record of both.

Every buyer of SaaS will need to develop and apply reliable, strict criteria of their own to assess a provider’s viability. Most traditional business measures, including track record, customer satisfaction, industry reputation, and channel presence, can and should be used to gauge SaaS provider viability.

In addition to overall vendor viability, HR executives tell us that SaaS providers must specifically be able to deliver the following in order to be considered:

- **Support.** In our most recent survey, HR executives told Saugatuck that the availability of cost-effective, responsive user support is of the utmost importance to them. This is an easily-overlooked aspect of SaaS; too many buyers see SaaS as needing less technical support because the software is located on the provider’s servers. But even with the most easily-used SaaS solutions, implementers, IT organizations, and users will need ongoing and easily-accessed support, especially with solutions that can be configured to meet HR organizations’ unique demands. Tiered support levels enable greater flexibility and help manage support costs more effectively.
- **Implementation.** Ranking just below Support cost and capabilities in our survey were implementation cost, and the availability of highly-skilled implementation resources. Implementation of comprehensive SaaS solutions can be somewhat complex, especially when the SaaS solution is bridging gaps



“As good and easy as this solution can be, you really need to use experienced help to get it done right and relatively inexpensively.”

- VP Planning; Large US-based business services provider

between multiple systems and operations. Meanwhile, IT buyers and support organizations, and HR executives and professionals, want solutions that can be implemented rapidly and cost-effectively. The SaaS provider must be able to set and meet realistic expectations for solution implementation, hopefully using previous, relevant experiences as examples. Buyers should evaluate SaaS providers that have in-house implementation resources, expertise and experience, or that have established and close working relationships with experienced HR solution resellers or consulting firms.

- **HR experience and knowledge.** Finally, but of no less importance, SaaS providers must understand HR, not just build and sell HR solutions. This means that any provider being considered must understand the entire range and impact of HR responsibilities, and the challenges HR faces, in order to understand how HR works – and wants to work more effectively.

### NET IMPACT

Saugatuck’s real-world research shows that SaaS solutions are not only viable for critical HR operations, they are considered a means of improving HR’s ability to fulfill their responsibilities. SaaS solutions should be considered by HR executives for any and all aspects of HR responsibility and operation.

As with any important part of IT and business, the critical challenges are in evaluating and selecting solutions and providers. While the previous pages provide useful direction and detail regarding SaaS solution and provider selection, we feel it necessary to emphasize one more critical aspect:

*IT buyers and HR executives must work together to subject SaaS solutions and providers to at least the same levels of scrutiny, evaluation, and challenge that any provider of any critical IT would be subject to.*

SaaS is mainstream IT, and needs to be evaluated, selected, implemented and supported as such. HR and IT need to work closely together not only to understand and evaluate the capabilities of solutions and providers, but to be able to accurately estimate the effects of the solution on HR, IT, and the company at large. The more comprehensive the solution, the more important it becomes to coordinate and conduct the evaluation and selection process effectively.

“We are very satisfied. I wish we had known about SaaS sooner and used it earlier.”

- Director, Human Resource Administration, US-based Energy Services Firm



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SaaS is rapidly moving from an “if” to a “when” discussion for many organizations, and this is especially true with regards to HR and talent management applications. With SaaS continuing to move beyond its initial niches of CRM and small to mid-sized businesses and into the enterprise, it is important for customers to recognize that not all SaaS solutions or providers are created equal. When selecting a solution provider, companies must evaluate the provider’s ability to deliver SaaS in a way that supports their unique business requirements. *SaaS buyers should apply the following framework when selecting a SaaS provider partner:*

**Product Architecture.** The foundation of the SaaS solution must be an enterprise-class, multi-tenant architecture. Customer benefits are made possible through efficiency gained by the provider via a one-to-many delivery model that is best served by a multi-tenant architecture. Product architecture is critical because SaaS providers manage upgrades and maintenance, and architecture will impact a provider’s ability roll out changes to customers. The best SaaS architecture also enables a high level of configuration and extensions, which in turn enable maximum cost savings and ease of use. Providers must deliver flexible tools that allow users to make changes and implement their own processes and requirements.

**Operations.** SaaS customers place a significant amount of trust in the hands of the provider. Because providers are responsible for managing and delivering the solution, they are also responsible for data security, reliability, scalability, and the overall user experience. Providers must not only have the right architecture, and the best physical infrastructure and systems in place, they must also have the right people and processes in place to support this new operating model. Two core provider operations aspects to be considered are:

- *Product Infrastructure.* The provider should be hosting the application in a secure and scalable third-party facility that meets all customer security and data privacy requirements. Providers should also address common best practices for application delivery (SAS 70 Type II, PCI, and Safe Harbor). Because SaaS customers are dependent on the provider for much of the end user experience, providers should assure a high level of availability and a high quality experience.
- *Customer Support & Services.* SaaS offers a much faster time to market, and a SaaS implementation is much different than an on-premise one. SaaS solutions are configurable and extensible in a less technically demanding way than on-premise deployments, and a services organization must be built with that in mind.

**Business Model.** SaaS is fundamentally changing the way providers build and deliver their solutions – solutions are delivered more quickly and at a lower cost, and the pace of innovation is much faster. These changes impact sales and marketing efforts and the overall characteristics of the provider’s financials. The majority of a provider’s revenue should be recurring, with a smaller professional services component. Deferred revenue will be an indicator of the provider’s long-term revenue health. The following business metrics are equally important to consider when evaluating SaaS solution providers:

- *Customer Retention.* This is critical in any business. Best-in-class SaaS providers generally experience less than 5 percent annual customer churn because they focus heavily on customer success.
- *Profitable Growth.* Is the provider building a sustainable business model, or just growing quickly with hopes of selling the company? Well-run providers build for viability, consistent profitability, and growth.

Choosing the right SaaS solution provider can be a challenge. Buyers must evaluate solution providers against a broad set of criteria that assess both technology and the business. The provider must have the product, the operations, and the proven business results to show that it will be a sustainable business partner.

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For more information or to request a demonstration, please visit us at <http://www.plateau.com>

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