2019

HCM TRENDS REPORT

Trends Shaping 2019 from Leading Market Analysts

As businesses in every region around the world and in every industry continue to be disrupted by macro societal trends and technology innovation, HR is transforming itself to lead people strategy and programs into the future. In support of this shift, the HR technology market is exploding.

Leading HR technology market analysts have come together via the HR Federation to explore the trends that are shaping HR, work, and business in 2019.

MACRO TRENDS

Businesses of all types are implementing more HCM technology than ever. Companies of all sizes compete for business across town and around the world while they also compete to attract and retain employees in an increasingly competitive labor market with widening skills gaps.

Global business headlines increasingly focus on the impact of people issues that sit squarely in HR's domain:

- Record-low global unemployment
- Increasing transparency on business culture and practices
- Energized focus on diversity, inclusion, gender equity, etc.
- Generational shifts in the workforce

Global investors are rushing to the HR technology category, as new products enter the market on a seemingly daily basis from startups and market leading legacy vendors, alike.
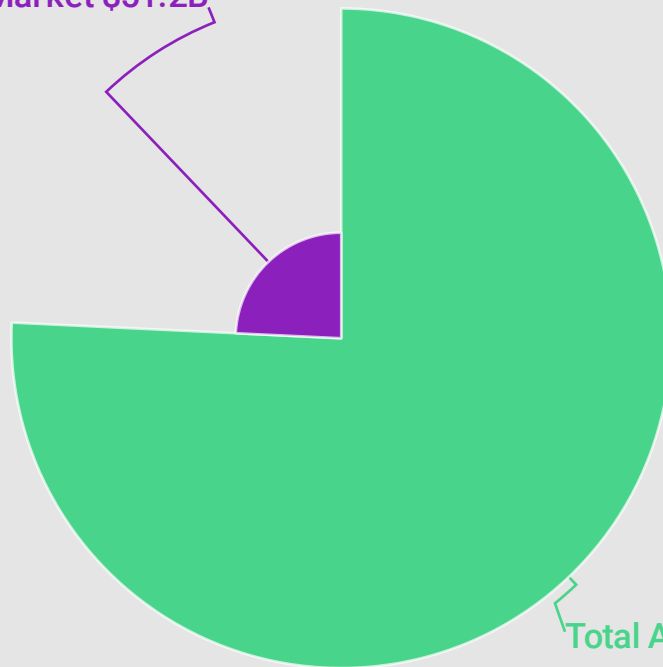
AN EXPLODING MARKET

U.S. 2019 TAM vs SAM

Serviceable Available Market $51.2B

The HCM technology market reflected here includes HRIS, payroll, time & attendance, benefits administration, talent management, and talent acquisition categories.

Further HCM tech market analysis is due from HRWins in Q1 2019.

TAM amounts are calculated using industry average price-per-employee-per-month (PEPM) for major HCM technology categories. PEPM numbers are annualized and vetted on an ongoing basis with HCM tech vendors, tech analysts, and customers on an ongoing basis.

Total Addressable Market $160B

Market size data from HRWins puts the HCM technology total addressable market (TAM) at $160 billion. TAM is defined as the total market demand for a product or service, calculated in annual revenue if 100% of the available market is acheived.

HRWins has surveyed more than 3,500 employers regarding their HCM technology buying intentions over the last three years. The average percentage of employers intending to replace or buy new HCM technology across each of seventeen HCM technology sub-categories has consistently held at 32%. This puts the serviceable available market (SAM) at $51.2 billion. SAM is defined as the portion of TAM targeted and served by a company's products or services.

AN EXPLODING MARKET

2017 & 2018 YTD Global HRTech VC

Legend: ● Amount ● Deal Count
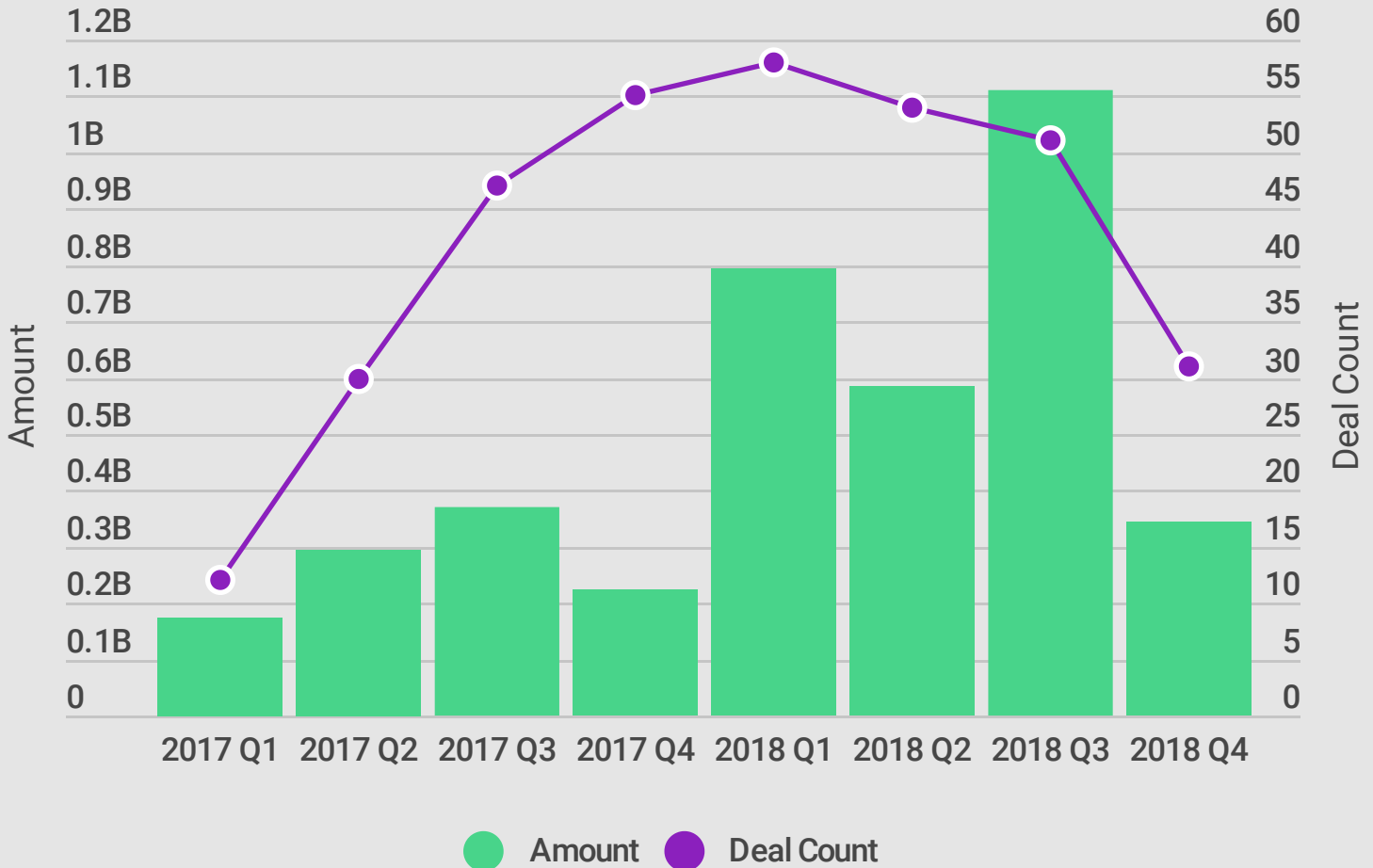
At the time of this report, 2018 global HR technology venture capital (VC) investment tracked by HRWins has more than tripled the amount of 2017 VC invested. Q3 2018 alone had exceeded the total VC invested in HR technology for 2017.

2018 VC investment to date has been distributed fairly evenly across HCM ($1.14B), talent acquisition ($1.12B), and talent management ($910M).

Core capabilities in each category were well represented. Leading sub-categories included job board/marketplaces (talent acquisition), collaboration and communications (HCM), and learning (talent management).

AUTHORS

Trish McFarlane

Trish McFarlane is the CEO of H3 HR Advisors and CEO/ Co-Founder of HRevolutionize, LLP. Trish is a former HR executive, HCM product leader, and analyst with over 20 years of experience in Big 4 public accounting, PR, healthcare, manufacturing and IT. She is the author of the popular HR Ringleader blog, and co-host of the most listened to HR industry podcast, the HR Happy Hour.

Ben Eubanks

Ben Eubanks is the Principal Analyst at Lighthouse Research, author of the book Artificial Intelligence for HR, and host of the We're Only Human podcast. His research focuses on research and case studies of competitive talent practices and practical examples of innovation in learning, talent, and HR.

George LaRocque

George LaRocque, Principal Analyst and Founder of HRWINS, has more than 25 years in the HCM industry. A former practitioner in talent acquisition, talent management, and HR, he turned technology vendor executive for some of the market's largest HR technology brands. George is the publisher of HRWins research and reports on workforce trends and related innovation in tech.

TRENDS
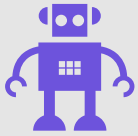
Practical Applications of AI

HR, The Business of Getting Work Done

Skill Quantification

Payroll Innovation

Learning and Recruiting Close the Skills Gap Together

New Levels of Recruiting Experiences

Total Wellbeing

Practical Applications of AI

Author: Ben Eubanks

Nobody cares about AI, only what it can do for them.

The last year has been a good one for anyone talking about AI. In the increased attention to the topic, more and more HR leaders have had their interest piqued. In other words: what is this artificial intelligence thing and why should I care?

The thing that's going to change in 2019 is a **greater focus on the actual, practical impacts** of AI. It's no longer enough to shout that your technology has machine learning or automation capabilities if you want attention--you'll have to explain the problems it solves or risk being overshadowed by those that do.

This is combined with the need to find the balance between the human and machine in workplace tasks. Many bots and other tools are automating processes, but what about the human element? Is it lost? What we're seeing is that this is a slippery slope, and employers must be cautious about over-automating and potentially compromising the experience for candidates, employees, and customers.

And for those that think AI is going away, just remember this. In 2017, approximately half of the funding rounds in the HR, learning, and talent technology space were focused on companies that were prioritizing AI, intelligent systems, machine-driven insights, and more. In 2018, those funds went into fueling product development, and in 2019 we should see an even greater mass of providers bringing AI-powered technologies into the hands of the HR demographic.

Author: George LaRocque

HR, The Business of Getting Work Done

It's all coming together for HR.

HR has long struggled with tying the value of its programs to business results. However, recently the confluence of several trends is disrupting the status quo for traditional HR, and progressive HR leaders are taking advantage by, embedding people strategy into business strategy. These trends reflect an emergence of modern HR, and the evolving perception of HR, and new HR technologies.

- **The new guard in HR leadership enters-** While we like to talk about the workforce as if we're not in it, the seismic technical disruptions and generational shifts happening in the world of business are happening in HR. Generation X and millennials are moving into senior management and representing HR in the C-Suite. The modern HR leader is as digitally-native as the workforce they support, and their expectations of HR and HR technology are not limited by an aversion to technology or data. The expectations of what's possible in, and from, HR is changing rapidly.

- **Change in HR value perception by leaders outside of HR-** Recent HRWins research across more than 1,000 businesses show that the value perception of HR is high. This was true for both quantitative metrics like return-on-investment (ROI), time and dollars saved, or the contribution to revenue. It was also true for qualitative contributions like the impact on culture, engagement, or measures that are correlated less directly with productivity or business outcomes.

- **Communications and collaboration as a feature-** HR has always tried to foster a work environment that breeds communication and collaboration. Modern HR leaders now expect HR platforms and applications to both offer connections to other employees in workflows that require it like learning, feedback, performance management, or hiring and to integrate that communication into enterprise communication platforms like email, Slack, Microsoft Teams, etc.

- **Accessible Analytics-** We've been talking about people analytics for a long time, yet it's remained out of reach for most companies. While the momentum for people analytics is undeniable, it has long been a luxury reserved for large businesses that have substantial resources in operations and well-trained data analysts supporting HR. HR teams in most companies have largely been left to standard reports and data exports into spreadsheets. That's until recently. The emergence of new HR technologies that are more accessible for small and medium sized businesses have brought with them some opportunities to do analysis across HR processes, programs, and systems. And, it's come on quickly.

HR, The Business of Getting Work Done

It's all coming together for HR.

- **Employee Experience Is Everything-** Employee experience has become the lens that all of HR's work is viewed. It starts pre-hire while candidates interact with an employer's brand and expectations are set. Then, reinforced during the onboarding process and cemented through every day of employment. We've learned that employee engagement isn't an outcome, and that culture is too complex for most companies to measure with a consistency that can be tied to business performance. We're beginning to see that now through the lens of employee experience, not as a metric at the end of a survey, but as the definition of work, replacing the "employee lifecycle." Empowered by modern HR technology, we can draw better insights to value, extending to correlations between HR and business outcomes through data.

- **Behavioral Change via Sentiment Analysis, Machine-learning, and Workflow-** William Glasser said, "If you want to change attitudes, start with a change in behavior." As companies look to HR to lead the way in impacting change in areas like diversity & inclusion, sexual harassment, gender and pay equity in the workplace, etc. modern HR leaders are looking beyond traditional training options and starting tob leverage technology to help employees change their behavior at the time it is needed. Recruiting platforms can prompt for additional feedback to ensure a reduction in bias, core HR systems can identify pay inequities by incorporating data from various systems, and as HR technologies are more embedded into communications and collaboration technologies are even starting to identify how a leader communicates across their team. All of these technologies not only identify an issue, but offer alternative actions or behaviors.

Author: Ben Eubanks

Skill Quantification

Enabling better talent mobility and increased use of internal gig marketplaces.

GE. IBM. DXC. Dutch Royal Shell.

All told, just this short list of companies alone is home to nearly a million employees. And one thing they are doing differently is focusing on the small things--skills. Instead of looking at jobs as whole chunks, they are examining the granular skill sets of the workforce to get better at understanding how to slot people into open roles.

In tight labor markets, employers must find ways to keep their people engaged, and development consistently shows up as one of the top items for driving employee engagement and retention.

In addition, many of these forward-thinking employers are looking at using internal gig marketplaces to get work done. This is a popular approach for enterprise employers simply due to the depth and breadth of available internal talent, but this approach going to move downstream.

As a whole host of new technology solutions have entered the market to help employers make better use of the existing people they have on hand, more companies are now looking at how they can balance outsourcing with insourcing, using the available internal skills and talents to get project-based work done.

Author: Trish McFarlane

Payroll Innovation

Innovating the core promise made to employees.

Payroll is the backbone of a company. It's the system with the ability to take the information about salaries, bonuses, and deductions and sum them to create compensation for each employee over a specific period of time. With the move to payroll in the Cloud, the automatic updates help alleviate many of the former concerns with having outdated systems that are not capable of meeting the company needs. But what about all the companies that are still not using a Cloud-based system? According to the *Sierra-Cedar 2019 HR Systems Survey:*

- The length of time a system has been deployed plays a major role in Payroll application replacement plans.

- Organizations planning to replace their current Payroll application in the next 12 months report that, on average,their current systems have been deployed for 8.62 years.

- Organizations planning to make a change within 24 months have had solutions for an average of 10.85 years.

The time is now for companies who have not upgraded or moved to consider their options. In 2019, one of the major trends will be embracing payroll innovation. Here are a few of the payroll trends you'll be hearing about, buying and implementing in the coming months and years:

Pay transparency- There are a variety of reasons that pay transparency is coming to the forefront in thinking when designing and implementing payroll systems. While it's been known that women historically earn far less than their male counterparts, the current economic and political climate is driving that fact home and companies are now forced to deal with it. According to a 2018 report published by the American Association of University Women, in the U.S. white women on average earn 79% of what white men earn. Black women only earn 63% of what white men earn. The number continues to drop for Native American women at 57% and Hispanic women earning only 54% of what white men earn.

Pay modeling- The ability for workers to see their pay information on desktops, laptops, tablets and phones is here. And while it is certainly the push for pay information to be mobile, it is still a rearview mirror look at what happened in the past. Solutions can allow the employee to dig in on why their paycheck is a certain amount, what deductions they have elected, how much needs to be direct deposited, and more. But the real trend will be payroll solutions that allow the employee to model their pay in the future.

Author: George LaRocque

Learning and Recruiting Close the Skills Gap

Recruiting takes learning to the outside.

We've classically considered learning content and systems a part of talent management, a process that starts after an employee begins their employment. Conventional thought would suggest that the only skills gap an employer can close is the one "in-house." However, recently there are several initiatives where learning content and capabilities are being offered "externally" to candidates that identify themselves with interest in a career path, but lack core skills to qualify for a job, particularly with entry-level and more junior-level positions.

By providing access to learning content incrementally, employers are not just investing in the training of a new candidate, and the development of a candidate pool, but also getting a glimpse into which candidates are committed to the path and may be worthy of consideration for internships, apprenticeships, or employment in areas that offer a ladder to the desired career path. This investment by employers and staffing solution providers into the general talent pool is an incredible opportunity to positively impact both the employer's brand and the candidate experience.

As learning has been disrupted by consumerization trends, and skills gaps have increased even through economic slow downs like the great recession, it's a trend attracting increasing investment.

New Levels of Recruiting Experiences

Recruiting looks inside and out.

Author: Trish McFarlane

Extraordinary Experience

One of the trends that we predict will develop rapidly is the idea of the candidate participating in a fully immersive experience that is a blend of current onboarding practices and virtual, illusory experiences. Currently, organizations are beginning to embrace technologies that provide a customized experience for candidates and new hires. Plan to see more in this area as organizations incorporate how the candidate will look, feel and sound while working at the company. You'll also see more organizations create branded messages using their technology as a way to provide a consistent message throughout the entire employee life cycle.

Refocus on Internal Recruiting

We are also predicting 2019 as a year with renewed focus on recruiting from within and focused retention. Many organizations have some type of employee referral program, however, we are now seeing technologies with the ability to connect employees and skills in a way they have never been connected before. Watch for companies like ProFinda in this area. They are one example of how technology can map a new hire's skills, expertise and knowledge and follow those as the employee progresses and is looking for challenging opportunities internally. Instead of leaving the company, organizations want insight into what they can do to keep their most talented employees long-term. Technology is finally catching up in a meaningful, actionable way.

Author: Trish McFarlane

Total Wellbeing

Putting the "whole" employee first.

For at least 10 years, the term "wellness" has been used in the workplace. Primarily, it was a way to address the need for improved health of employees via step programs, exercise plans and better eating habits. This has evolved to Total Wellbeing, which is the holistic strategy to address the emotional, physical, financial and professional needs of employees. In addition to their professional development and health needs, which HR tends to have a better focus on, employees are facing financial planning needs such as unforeseen expenses and expenses related to family members.

Recently, in the 2018 Gallagher Benefits Strategy & Benchmarking Survey, wellbeing was recognized as one of the biggest trends in solutions organizations need. When asked, only 52% of respondents believe they have an effective wellbeing strategy. Of those that are putting strategies into place, there are some creative ways they are incorporating offerings into their plans. In terms of innovative, wellbeing support, respondents said they were offering financial advisors (62%), discounted products/ services/ events (58%), gym subsidies (48%), financial literacy (47%), debt counseling (23%), and student loan forgiveness (13%).

ABOUT THE HR FEDERATION

The HR Federation is a network of leading HR market analysts providing advisory services, research-based insights, and market knowledge for both employers and technologists.