



Why HR Technology Is Costing Your Business Way More Than You Think

Four challenges to be on the lookout for

John Wallace

hcmnlocked.com

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Introduction

Let's start with a story that might sound familiar: After many years of running payroll manually you have a conversation with your CPA who suggests a certain HCM (Human Capital Management) vendor as a solution to automate and outsource. Understandably, you're hesitant because you've tried this before only to switch back after the poor experience. You think that maybe this time is different, so you meet with the sales rep and you're shown a dazzling product demo that promises to make your life easier and save you money, albeit with a few vague ROI calculations. You feel confident that this time is different, so you move forward.

A month later, the implementation process is messy and taking twice as long as you thought it would. Your staff is being pulled in multiple directions and it seems like every day there is someone new calling from the vendor's implementation team. The features you are most excited about get put on the backburner as you barely manage to get payroll up and running, weeks behind schedule. Six months later, the other modules are still collecting dust.

In its simplest form, Human Capital Management is effectively utilizing your employees to grow your bottom line. HCM technology is the software systems used to accomplish that objective, addressing everything from recruitment, onboarding, performance management, payroll & tax, HR, compliance, and insurance. Not managing this broad segment may be costing your company potentially hundreds of thousands of dollars. To fix the problem, you must properly diagnose the problem. Here are four common challenges we see in the Small & Mid-sized Business (SMB) market.

Challenge #1: ROI calculations that don't add up

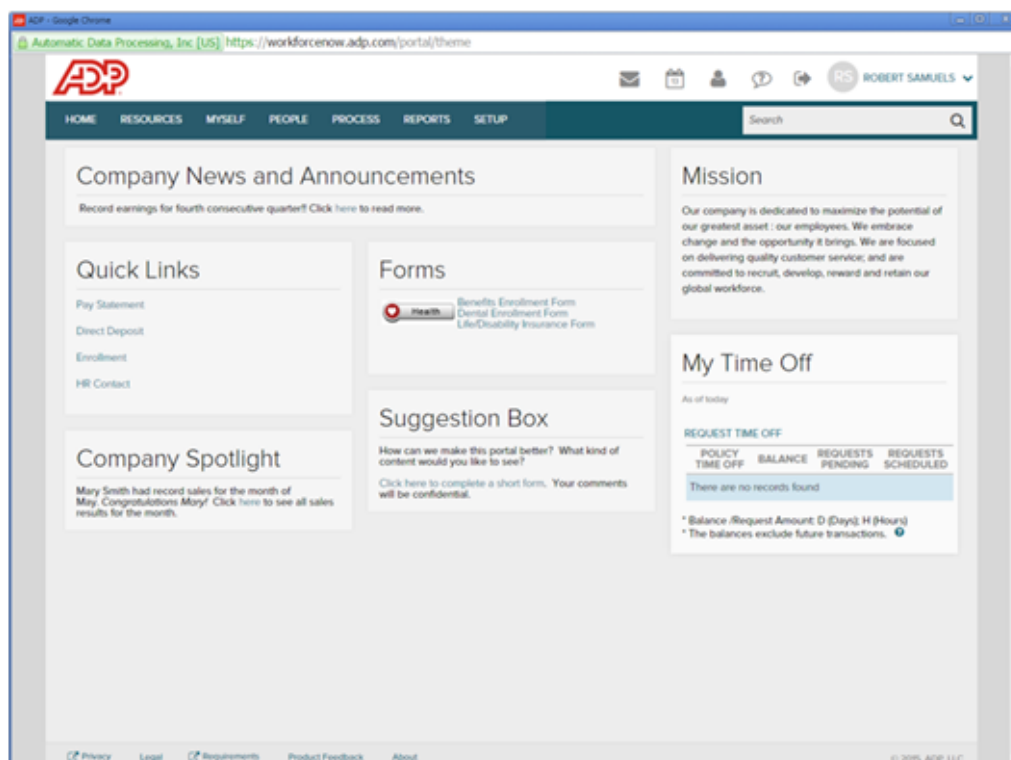
Most HCM technology sales professionals can put together an ROI calculation using the factors listed below, but how many are following up post-implementation to validate their estimates?

Hard Dollars	Soft Dollars
Time theft	Increase in productivity
Overhead expenses	Reduction in turnover
3rd party vendor expenses	Customer satisfaction
Staffing	Employee morale
IT expense	Increased compliance
Reducing payroll errors	Going Paperless

In the SMB market segment there is often a gap between sales, implementation, and service that leads to projects not being completed as envisioned. An objective independent resource to help hold vendors accountable to their promises may be beneficial to ensure the ROI is in line with what is expected. The broad reach of the HCM segment also adds to the difficulty. No vendor can truly do it all, but there are some vendors that grade out well because of their flexibility and ease of integration. ADP gets high marks due to their marketplace of over 100 partners, as does Paylocity with their open architecture design. However, the challenge is in the execution of the buildout which leads to the second challenge below.

Challenge #2: Incomplete implementations

After surveying a leading HCM technology vendor, we found that almost 75% of mid-sized organizations have not completely built out the platform they are paying for. As a result, organizations are using only the most tactical modules such as the payroll processing engine. In fact, the technology that drove the purchasing decision is oftentimes not the one being used. This may lead to another unnecessary RFP process when the answer is already in place. Below is an example of what ADP's Workforce Now technology looks like out of the box. It is an award-winning platform (4 years as a magic quadrant leader by Gartner), but relies on the end user to configure.



The image below is an example of what can be added to the software to increase usability with employees as an online resource. The portal can be further customized with logos, color schemes, and can be built in multiple languages.



While an incomplete portal doesn't have dire consequences to a business (it does serve as a good example of the parity between expectation and reality), there are more concerning issues that should raise red flags when it comes to compliance. Many HCM companies tout Affordable Care Act (ACA) compliance as a selling point in their presentation to 50+ employee organizations. The problem is that these services are not turn-key, and they require a complete system build-out to be utilized. In addition to the payroll platform, HR and benefit modules that store critical data pieces such as pay rates, dates of hire, eligibility statuses, waiting periods, benefit plan designs, and more must be correctly loaded. These don't have the visual appeal of an employee portal, but carry tremendous weight when it comes to ACA compliance, and are often overlooked.

Challenge #3: Brokers that don't pull their own weight

A good health insurance broker is worth its weight in gold. Many small and mid-sized organizations lack internal resources due to budget constraints. This is where the innovative companies win: by rethinking the way they deploy external resources to supplement their teams, keeping overhead low, and running lean. These organizations turn to their brokers.

There have been several factors in the last 10 years, led by the Affordable Care Act, that have changed who brokers work with and what they do. Many national firms have shifted their focus and moved upmarket and the void has been filled by “faceless” brokers who offer a self-service model. Business Insurance Magazine’s 2018 list of the Top 100 Brokers of U.S. has Paychex, a payroll company, ranked #20 with over \$226 million in annual revenue. ADP’s insurance agency trails Paychex but will likely be climbing the rankings as years go on. The challenge with working with these payroll companies for your insurance is that they treat service the same way they do payroll clients: through a call center and a passively managed email inbox.

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DATA & RANKINGS

100 LARGEST BROKERS OF U.S. BUSINESS*

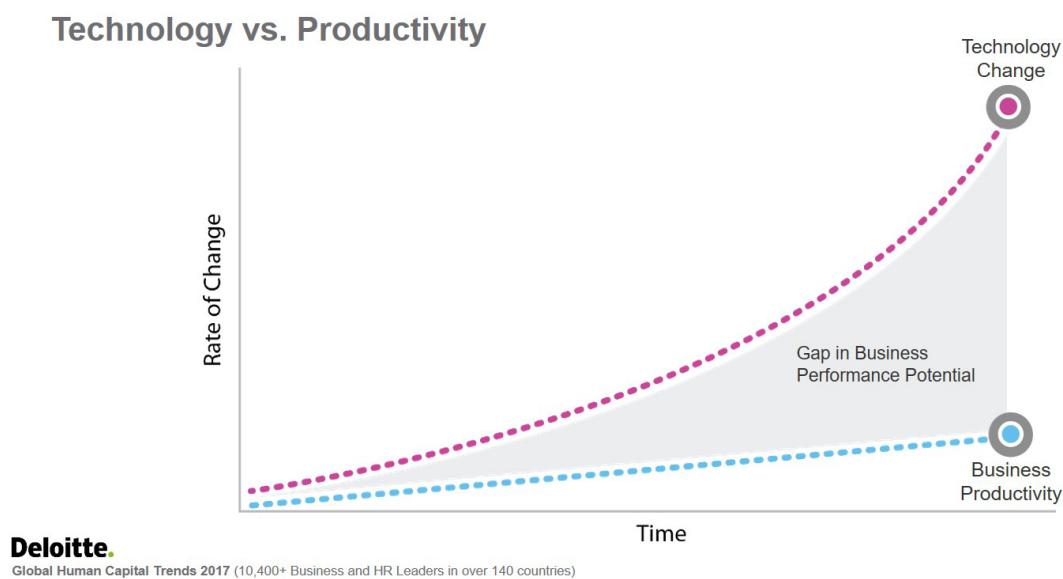
Ranked by 2017 brokerage revenue generated by U.S.-based clients

2018 rank	2017 rank	Company	2017 U.S. brokerage revenue	% increase (decrease)
1	1	Marsh & McLennan Cos. Inc. ¹	\$6,877,150,000	4.0%
2	2	Aon P.L.C. ¹	\$4,410,951,600	(27.3%)
3	3	Willis Towers Watson P.L.C.	\$3,814,520,000	2.2%
4	4	Arthur J. Gallagher & Co. ¹	\$3,132,186,000	8.4%
5	5	BB&T Insurance Holdings Inc. ^{1,2}	\$1,918,256,000	2.2%**
20	21	Paychex Insurance Agency Inc. ⁹	\$226,100,000	9.2%

Partnering with a large, faceless broker is wasting what could be an invaluable resource.

In addition to payroll companies, brokers (large or small) who refuse to take on responsibilities outside of insurance are also hurting your business. In the under-50 employee small group market, health insurance rates are fixed. Aside from changing funding options and strategically using voluntary products, there isn't anything your broker can do to "save you money." Understanding this fact is critically important. With insurance becoming a commodity in the SMB market segment the question must become, "what else is your current broker doing to support your organization?"

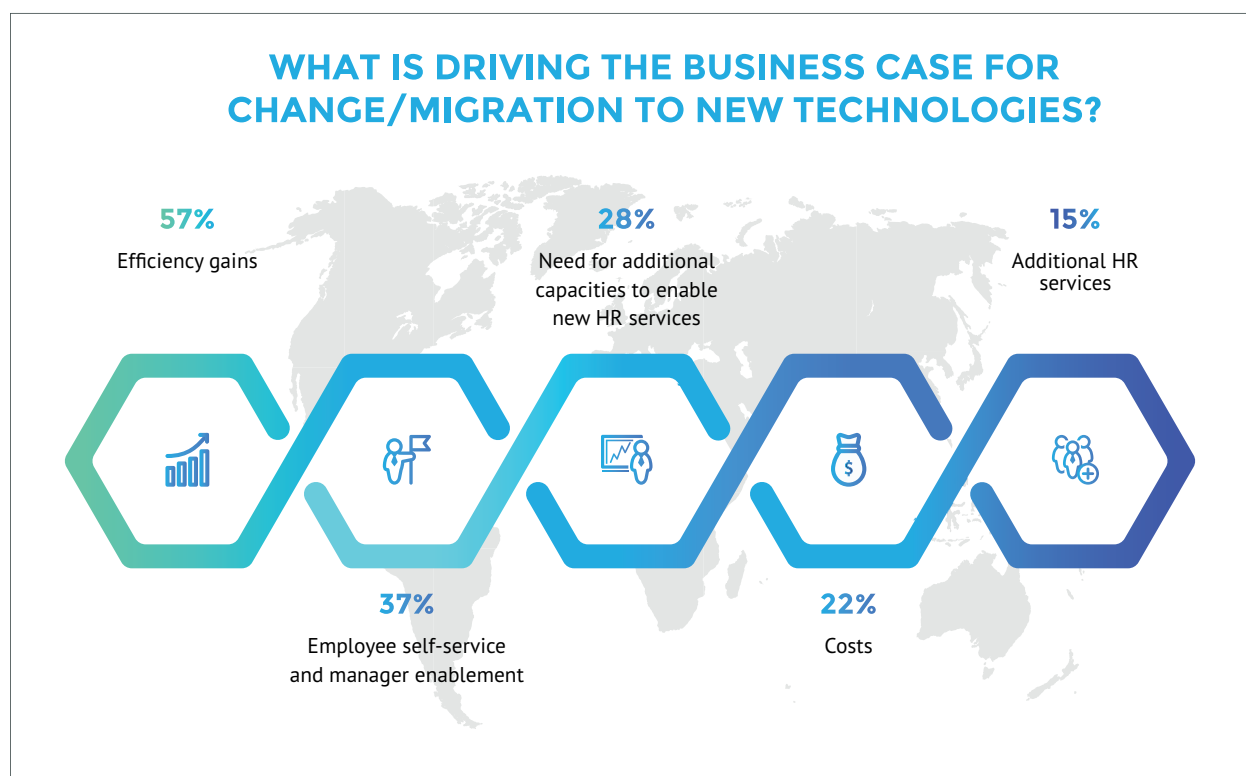
The right broker for a SMB organization is one who can help not only with insurance but also drive productivity. This missing layer of people support may be the answer to your organization's productivity gap. According to a Deloitte study (graphic listed below): as technology advancements are increasing rapidly, human productivity is severely lagging. Technology is purchased and implemented to be the tool that frees employees to become more productive, but that isn't translating to productivity.



With internal resources limited in the SMB market, money is being left on the table by not evaluating and maximizing strategic partnerships, starting with your health insurance broker. The right broker may be the key to unlocking the productivity growth you were looking for when you purchased your HCM technology.

Challenge #4: Outdated technology

As illustrated above, a SMB organization's HCM technology isn't the problem in many situations; the deployment and buildout are. However, this is not always the case and there are certain times when a switch is needed. According to BusinessForward, efficiency gains (particularly those around employee self-service) lead the way as the top reason that employers are looking to change technology vendors.



With a changing demographic entering the workforce, mobile technology and self-service are becoming necessities to compete. If your vendor doesn't offer these tools, it may be time to look elsewhere. Beyond self-service there is also a need to incorporate talent management software that integrates to your organization's HRIS platform. Unemployment is at a historically low level and organizations must be properly equipped to handle the staffing shortage.

HCM UNLOCKED

HCM Unlocked is an independent consulting firm focused on helping small and mid-sized businesses navigate the complexity of the current HCM technology market. To learn more, please contact us via the information below.

Contacts:

hcmunlocked.com

(561) 419-8409

jwallace@hcmunlocked.com

