FOSWAY GROUP

The True Costs of Cloud HCM: A Perspective on Workday

Research Report – March 2020

Over the past few years, we have seen huge growth in the number of companies looking to move their HR systems from on-premise to the Cloud and implementing new Human Capital Management (HCM) systems.

Fosway has been tracking and analysing this transition, both from an industry analyst perspective, and reviewing the solutions themselves. Assessing the cost of Cloud HCM solutions is of course a part of the procurement process, but often the view of cost is rather limited – and it can negatively influence buying decisions in rather artificial ways. Having a true understanding of the cost of Cloud HCM is critical to companies making better buying decisions, as well as ensuring they are appropriately resourced for the reality of owning these solutions longer term.

This report summarises specific research from Fosway on the Total Cost of Ownership (TCO) of Cloud HCM, targeted at larger enterprises and their experiences with the 'Tier 1' Cloud HCM vendors – Oracle, SAP and Workday. It provides guidance on the relative areas of spend, and areas that corporates should focus more on within their TCO assessment. Finally, this paper also specifically explores the TCO profile of Workday versus its main Tier 1 competitors, and identifies where buyers should be aware of specific areas of difference from a TCO perspective

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Executive Summary

This report summarises specific research from Fosway on the Total Cost of Ownership (TCO) of Cloud HCM, targeted at larger enterprises and their experiences with the 'Tier 1' Cloud HCM vendors i.e. Oracle, SAP and Workday. The report also explores the TCO profile of Workday versus these competitors.

Most organisations appear to have a distorted view of how much their HR systems cost. Having a true understanding of the cost of Cloud HCM is *critical* to companies making better buying decisions, as well as ensuring they are appropriately resourced for the reality of owning these solutions longer term. Some key recommendations from this research are:

- Without an accurate view of TCO, creating a business case and fairly assessing the business costs and business value of a system is flawed or meaningless.
- True TCO spans multiple years and multiple stages. It should be considered over a 5-year period (not 3-years) and include not just Licensing and Implementing, but also the costs for Discovering, Acquiring, Operating and Innovating the solution over that period.
- License costs are typically 35% of the total cost of ownership over a five-year period.
- For an enterprise organisation, implementation costs average about 20% of total cost, with cost of ongoing operation and support making up 30% of total cost. The cost of innovating is about 7% of total cost, but frequently not tracked at all or is hidden as new projects.

When fully costed, the average TCO for Workday is comparable or better to other Tier 1 solutions, with potentially larger advantages for higher complexity customers. The majority of this advantage materialises via lower Operating and Innovating costs, and potentially some benefits in Implementing costs. Higher licensing costs may neutralise this benefit for lower complexity customers.

Note: Costs included are based on detailed interviews and reviews of costs with corporate customers directly, supplemented with additional information from Fosway's ongoing HCM research including input from vendors and customers on market pricing, external service costs, and internal costs such as staff and contract resources where appropriate.

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Understanding the true cost of Cloud HCM

The costs of owning, running and maintaining a system often dwarfs the annual license costs that buyers frequently obsess about

Fosway's research shows the majority of organisations who purchase HR systems appear to have a distorted view of how much their HR systems cost not only to buy, but to run. They rarely talk about the full costs of owning and running HR solutions, instead over-emphasising the license costs of a solution. In reality, license costs are typically only a third of the true cost of a Cloud HCM solution over a five-year contract period.

Think about buying a car. The total cost of buying and running the car includes the purchase price, but also the cost of fuel, servicing, repair and maintenance. What makes this more complex, is that the view of those costs varies the longer you own the car. The initial purchase price/cost becomes a lower proportion of the overall costs of owning the car the longer you own it. In a more sophisticated way, the same is true for HR systems. The cost of HR systems is not just the purchase price, it is also a range of other costs for running, using and maintaining the solution itself. When added together these other costs can dwarf the license fees that buyers and procurement teams frequently obsess about up front.

Why focus on TCO specifically in Cloud HCM?

Fosway has always tracked Total Cost of Ownership (TCO) as a key element of all its corporate and vendor research. It also forms an integral element of all our Fosway 9-Grid™ analysis. In 2018, following concerns that corporates were not looking at TCO objectively in Cloud HCM buying decisions, we decided to do some deep dive research.

The issue is that without a thorough view of TCO, creating a business case and fairly assessing the business costs and business value of a system is flawed or meaningless

This report is an outcome of this research. It does not yet tell the full story – that is still unfolding as part of our ongoing research process. But there are some important findings that we feel buyers of HR technology should understand.

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Understanding Total Cost of Ownership

From Fosway's TCO research, costs can be broken into the following stages and should all form part of the overall TCO calculation:

Discovering– how much does it cost to understand your needs and research market options before engaging in acquiring a solution?

Acquiring– the cost of engaging with the market to find a chosen solution including RFP process and selecting the solution.

Licensing– the negotiating and contracting the solution, including cost of licenses and the phasing of license payments for specific modules or full upfront costs regardless of module adoption. All licensing is compared as a Software-as-a-Service (SaaS) subscription.

Implementing– how much does it cost to migrate and import data, configure options, set up IT, integrate into other systems, change manage, move, and train user communities, and set up help infrastructure?

Operating– how much does it cost to run the solution – help and support users, manage it, administer HR processes – system, managers, users, regulate and govern changes?

Innovating - how much does it cost to adopt new capabilities, functionality or processes once the system is live?

TCO in Detail: Breakdown by Stages

The following lists provide some useful guidance on what organisations should include in building their TCO calculations. Whilst comprehensive, you should consider your own organisation's approach to managing IT projects and factor these into your own listing. Naturally not all costs will be known, and it may be appropriate to include budgetary estimates to help build a clearer sense of your own projected TCO with reference to the specific context of your project and organisation.

Typically, you should model these costs over a five-year time frame.

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The TCO of Cloud HCM: A Detailed Breakdown

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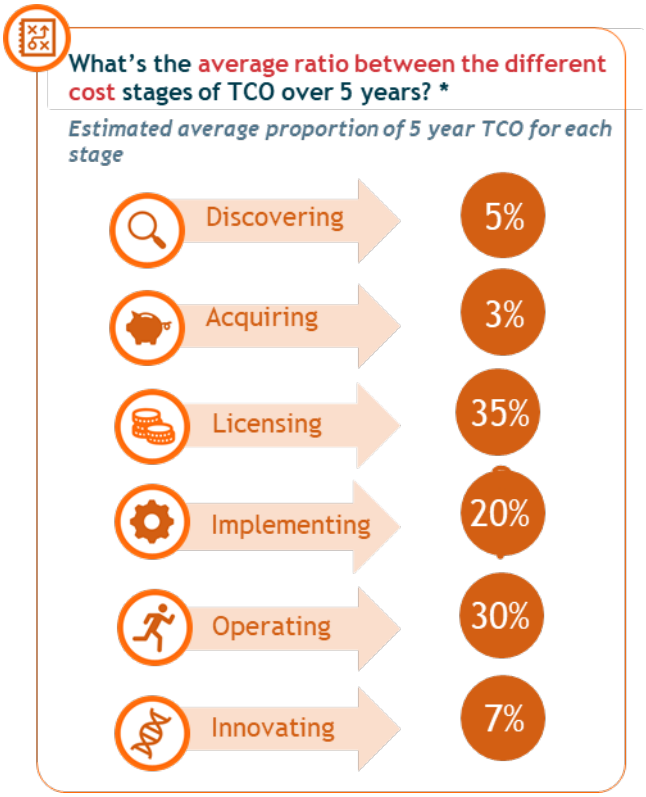
Overall TCO Breakdown

So, what is the overall split of cost between the different stages?

Based on our research, license costs are typically approximately 35% of the total cost of ownership over a five-year period. Whilst implementation costs vary significantly depending on specific context, for an enterprise organisation, they average about 20% of total cost, with cost of ongoing operation and support making up 30% of total cost. Cost of innovating is frequently not tracked at all or hidden as new projects.

The average breakdown of costs can be summarised as in the following diagram.



Sources of costs

These estimates are based on aggregated analysis of TCO costs for Cloud HCM projects in enterprise class organisations with the Tier 1 HCM vendors including Oracle HCM Cloud, SAP SuccessFactors and Workday.

Costs included are based on detailed interviews and reviews of costs with corporate customers directly, supplemented with additional information from Fosway's ongoing HCM research including input from vendors and customers on market pricing, consultancy and service costs, and internal costs including staff costs and contract resources where appropriate.

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The impact of vendor choice on TCO

As discussed, the focus of this Fosway research was on so-called Tier 1 Cloud HCM solutions – namely Oracle HCM Cloud, SAP SuccessFactors and Workday. Additional input has also been taken from Fosway's broader HCM research. In the previous section of the report, we talked about the aggregate picture and provided guidance on the average ratios of key cost areas such as licensing, implementing and operating. But if those are the averages, a) how much do they vary by vendor choice, and b) are there clear patterns to costs that are different between the different solutions?

Fosway feels strongly that it is important for all customers to be more aware of the true cost picture when budgeting for new Cloud HCM solutions. But ultimately, it is the second question which is the killer, because it should be much more visible in the buying decision. If the subscription (licensing) costs are on average only just a third of the true total cost, making decisions on the basis of just those costs is potentially neglecting a consideration that is nearly twice as large.

Also, the 35% is an average across all the Tier 1 solutions. If a product is more expensive to license, it may not be more expensive to implement or operate. In fact, this is borne out in our research. The choice of solution impacts licensing, implementation and operation (and innovation) costs in different ways. These differences can be summarised in the following main areas:

- Consequences of underlying technical architecture on implementation and operation
- Complexity of implementation, including implementation partner costs
- Provision of tools to simplify setup and administration (especially technical and functional administration)
- Cost of skilled resources, whether employed or contracted

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A Workday Perspective

The following table is an aggregated view comparing Workday (WDAY) specifically with other Tier 1 solutions i.e. Oracle HCM Cloud (ORCL) and SAP SuccessFactors (SAP) full suite customers.

Vendor TCO impact over 5 years	WDAY	Other Tier 1
Discovering • Understanding needs • Market research/options	Med	Med
Acquiring • RFP, Assessment & Selection • Final Business Case	Med	Med
Licensing • Subscription costs inc. software, hosting and support	High	Med-High
Implementing • Configuration • Data Migration & Integrations • UAT, Deployment & Change	Med-High	High
Operating • Support • Governance • Administration	Med	High
Innovating • Adoption of new functionality, updated features & processes	Low-Med	Med-High

Notes:

All costs are relative to **mean cost** for Enterprise customers.

Low = mean cost x 50-80%, Med = mean cost x 80-120%, High = mean cost x 120-150%+

Discovery Costs – assumed to be similar for all full HCM replacement.

Acquisition Costs – cost of acquisition and procurement process assumes a standard competitive tendering process and is similar for all solutions.

License Costs – cost of all licensed components including enabling tools. Assumes competitive sales

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discounting for SAP and ORCL and potential for phased license costs. WDAY costs are typically full license full period from initial contract signing. Other Tier 1 may include scaled payment variation for partial adoption of non-HR Core components first. Note: Customers need to ensure all related license costs (including enabling tools) are included for a realistic like-for-like comparison between vendors.

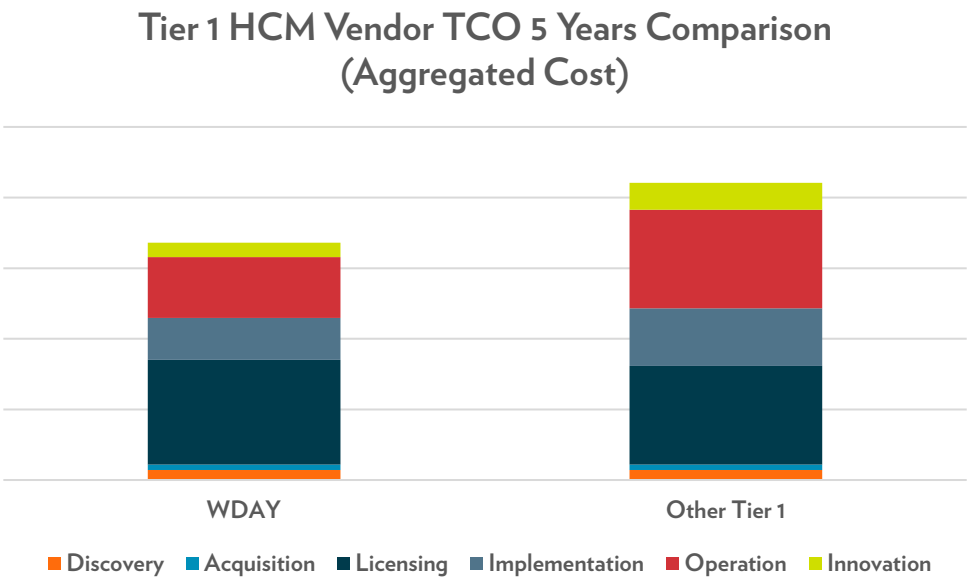
Implementation Costs – vary significantly from customer to customer. Assumes full replacement of previous systems on an enterprise basis but could be phased. May vary significantly depending on replacement of integrations or otherwise. Implementation costs are significantly impacted by partner / system integrator choice and governance/controls on project scope and service delivery.

Operating Costs – Based on our research, SAP and ORCL assume larger use of external resources for ongoing service management and greater complexity of architecture. WDAY costs assume higher day rate or salary premium due to relative demand/scarcity of skilled resources.

Innovation Costs – assume normal Cloud deployment model by vendor, and rate of incremental innovation with core roadmap. Also linked to speed of adoption for single architecture/code base and ease of management by the customer organisation directly.

Overall TCO Comparison – WDAY vs Other Tier 1

The following chart shows an aggregate summary of aggregated (true) cost comparison from our research.



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Workday vs Other Tier 1 – Detailed Notes

1. Discovery and Acquisition costs are assumed to be materially similar across all the Tier 1 solutions (assuming a competitive procurement process / RFP)
2. Workday licensing costs were on average higher compared to Tier 1 competitors over 5-years. Other Tier 1 showed a high propensity for phased costs (often linked to phase commitment or adoption of non-core components first). Other Tier 1 competitors also showed more variation regarding their approach to discounting of subscription costs.
3. Implementation costs are highly variable from customer to customer – even with similar complexity and scale characteristics. Implementation in larger enterprise customers assumed use of external third party implementors/system integrators. Some differentiation was seen in cost per day equivalent pricing, but not sufficient to impact overall assessment materially. Phased implementation of Other Tier 1 vendors allowed greater use of internal resources when transitioning from same vendor non-Cloud solutions.
4. Largest pattern differences were shown in ongoing support and operations of the chosen HCM platform. Workday customers showed a high proportion of self-sufficiency in technical administration and lower use of third-party consulting resources for ongoing operation and maintenance of the solution. Costs of internal resources were marginally higher for Workday (due to scarcity of experienced resources – this is likely to become more equitable over time).
5. Innovation costs for most organisations were difficult to assess due to the lack of clarity and budgeting for innovation management (across the board). Level of innovation across the different solutions is of variable pacing – all vendors seemed to have fluctuating periods of relatively higher innovation through roadmap. Research endorsed the pre-conceived view that single architecture/code base did enable more rapid adoption of innovation both at a modular level and across the suites.

Overall, when fully costed, average TCO for Workday is comparable or better to other Tier 1 solutions, with potentially larger advantages for higher complexity customers. The majority of this advantage materialises via lower Operating and Innovating costs, and potentially some benefits in Implementing costs. Higher licensing costs may neutralise this benefit for lower complexity customers.

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Additional Considerations

Higher market maturity may impact conclusions

It should be noted that this specific research was conducted in 2018/19 which was a period of high growth for all Tier 1 solutions considered. It was also for a period of significant change, both for the customers concerned, but also for the service partners and integrators they used.

Greater maturity of the Cloud HCM solutions may lead to different patterns of experience – especially as vendors focus on optimising the operational experience and innovation. In parallel, greater maturity of experience within the implementation partners is likely to lead to more scalable delivery and potential for greater cost optimisation. It is unknown as to whether these benefits will be shared equally across the Tier 1 vendors, or whether this impacts them at different speeds, exaggerating or marginalising existing differences. From a Fosway perspective, we are watching this closely.

Is HCM part of a broader ERP story?

It should be noted that because of the timing of the research, nearly all the projects and customers researched were for HCM only projects, not for a broader Cloud ERP (Enterprise Resource Planning) commitment. This is clearly starting to change in the market. Finance has been slow to come to the Cloud, but this is changing, and the integration between HCM and the broader systems of business is important to wider business planning and execution.

Analysis in this report is for HCM only projects, as is any discussion of potential TCO pattern differences. We expect the patterns shown for HCM to be replicated across the wider ERP story too – not just in the advantages of connected Cloud solutions, but also the costs associated with multi-implementation and on ongoing operations.

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In Conclusion

Fosway has always believed that understanding the true cost of an HR solution was critical, both in deciding which solution to adopt, as well as to appropriately budgeting for successful adoption and use of it. We bake TCO into all of our Fosway 9-Grid™ analysis, and we see our clients increasingly conscious of TCO in their decision using that analysis.

But this research came from an underlying concern; that whilst corporates looked at costs, the view of buyers had of cost was at best limited, and often skewed to the obvious costs but not the true cost. From a Cloud HCM perspective, particularly at the rarefied Tier 1 level in large enterprise customers, there is often a very short list of considered vendors but little information on the comparative differences between those vendors other than for functional comparison, and possibly for license costs.

To make good decisions, buyers need to understand the whole story. After all, the big advantage of Cloud solution is their supposedly better cost of ownership, as well as their faster path to innovation and the associated benefits that brings. That means understanding the true cost of Cloud HCM, not just SaaS licenses and implementation services, but also the impact on their teams, the costs and resources needed to operate these platforms on an ongoing basis, as well as the real costs of drive innovation effectively.

This research confirms the need to understand the true cost of Cloud HCM and shows that vendor choice impacts the true cost in multiple ways. Whilst customers are always different and their context will always vary, analysis of the customer experiences for each of the Tier 1 HCM options considered in this research has shown consistent patterns of cost experience relating to those solutions.

We also have a clearer aggregated (and averaged) picture too. We know that license cost, even for SaaS, is still only about 35% of the aggregated cost. We know that implementation costs vary widely on a customer to customer basis, but patterns of cost are similar and scarcer resources cost more. A single architecture and common admin experience both reduce operating effort and enables greater self-sufficiency. They also enable faster adoption of new innovations. As a buyer, understanding these differences will help you make a better initial buying decision as well as secure more successful outcomes.

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How was this research conducted?

The research was conducted by Fosway Group between August 2018 and December 2019, using detailed research conversations with a range of customers implementing and in live use of the Tier 1 HCM solutions – including Oracle HCM Cloud, SAP SuccessFactors Suite and Workday HCM. This was supplemented with data from Fosway's ongoing next gen HR research, vendor enquiries and input from our corporate research network.

Target organisations for interview were typically UK/European headquartered large enterprise companies (greater than 10,000 employees). Most were multinationals although we also spoke to a number of larger national organisations. All customer interviews were confidential but aiming to secure disclosure of specific costs incurred by that organisation across the full TCO lifecycle – from Discovery and Acquisition, through Licensing and Implementation, and then to Operating and Innovation costs. Disclosed costs include external spend (software, services etc), as well as internal costs and resources where possible. All costs were translated to a common currency for cross evaluation, along with an assessment of complexity factors to allow cross-analysis of costs with a high-low range sub-analysis too.

Recommended Fosway Reading

- Fosway's latest Next Gen HR Research
- Fosway 9-Grid™ for Cloud HCM
- HR Realities Research 2019-20
- 5 truths HR teams need to deliver an agile approach

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For over 20 years, we have been analyzing the realities of the market, and providing insights on the future of HR, Talent and Learning. Fosway analysts work extensively with our corporate clients to understand the inside story of the challenges they are facing, and their real experiences with next gen strategies, systems and suppliers. Our independent vendor analysis also provides a vital resource when making decisions on innovation and technology.

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About Workday

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