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Global View

Insights and Interviews from GGV Capital

The Human Resources Revolution

By Glenn Solomon, GGV Capital Managing Partner

Much has been written about the intense competition that companies have been facing for the past several years in their efforts to recruit and retain high-quality employees. McKinsey & Co.¹ popularized this concept in its 1998 report titled “The War for Talent,” and C-level executives throughout the U.S. and Europe have been fighting this battle ever since. Indeed, they were waging this war well before McKinsey put a moniker on it—fueled by generally low unemployment figures that have stayed below 6.5 percent since 1995.²

Conventional wisdom says that a weakening economy pushes up unemployment rates and reduces the severity of the war for talent. To everyone’s surprise, however, while unemployment rates have ticked up to 6.1 percent³ recently, the war rages on, though it is changing shape to be sure.

As in most wars, new fronts have been established while existing battles wax and wane. Innovative companies have been supplying increasingly effective armaments to management teams in several areas within the human resources (HR) landscape: 1) SaaS companies that drive HR automation; 2) vertically focused SaaS companies that deliver highly specialized information for complex HR functions; and 3) the emerging global market for outsourcing non-core HR functions.

SaaS and HR Optimization

Software-as-a-service (SaaS) has revolutionized the software industry with its on-demand approach and lower cost model. Historically, as new versions of on-premise software were delivered to the market, the large amounts of necessary customization work dramatically raised the total cost of ownership (TCO) for each, somewhat different, customer. Research firm Gartner Inc. estimates that owning and maintaining this software can cost up to four times as much as the original license.⁴ As a result, the number of employees given access to legacy software is usually limited to those who can derive only the most immediate benefit.

SaaS applications that drive HR optimization change the TCO equation. When delivered as a service, this new software can carry a significantly lower TCO than traditional on-premise software. HR-focused SaaS companies can deliver value on-demand to a broad set of users within a company, who had previously been overburdened by costly legacy software and customized upgrades. Across the HR spectrum—recruiting, workforce management, compensation for performance, and training management—SaaS applications are expanding rapidly, and they are providing a broadening circle of users with on-demand access to these key services.

While lower TCO helps address the growing demand for SaaS-based HR solutions, there are other factors contributing to growth in this sector as well. The decreasing average tenure of workers, aging of the workforce and globalization are other factors helping drive growth, according to the Deutsche Bank report, "SaaS and Cloud Computing, Talent Management Should Weather the Storm."⁵ As a result, Gartner Inc. predicts that SaaS solutions, which made up 17 percent of human capital management (HCM) applications in 2006, will account for 24 percent of the HCM software market by 2011.⁶

SuccessFactors, a GGV Capital portfolio company that recently completed a successful public offering, is a good example of an HR-focused SaaS vendor in the area of talent and performance management. Employees and employers alike have always wanted to more clearly set goals, review performance, and manage their careers. Until recently, software was too expensive to allow all employees within an organization to automate these functions. SuccessFactors, through its on-demand approach, has changed the game.

Delivering rich functionality at a low, predictable cost per employee, SuccessFactors now has more than 4 million end users of its SaaS product suite. Those users are distributed across more than 2,140 global customers of all sizes in 185 countries, spread across 60 industries, using the products in 22 languages. In many of these businesses, everyone from the CEO to the receptionist uses SuccessFactors.

Vertical SaaS – Harnessing HR Complexity

Because SaaS companies can update their applications centrally rather than having to physically deliver new code to each customer, these companies can upgrade and modify their solutions far more frequently. This advantage is greatest in areas of HR where complexity and dynamic market conditions make it very difficult to stay updated.

Healthcare benefits have always been one of the most expensive and complex areas within HR. In 2007 alone, employer health insurance premiums increased by 6.1 percent—two times the rate of inflation.⁷ As legislators seek to control costs, provide more insurance options, curb fraud, and ensure privacy, companies face a tangle of regulatory requirements.

With this backdrop, another GGV Capital portfolio company, Canopy Financial, helps promote and simplify consumer-driven healthcare while facilitating full compliance with all relevant regulations. Canopy's solution is designed to provide superior quality of health services to consumers, as well as substantial benefits to various constituencies such as banks, insurance carriers, and third-party administrators, who all see the vast opportunity to gain a foothold in the burgeoning consumer-driven healthcare marketplace.

Canopy provides its clients an industry-leading, fully compliant suite of on-demand solutions that helps clients build large, profitable business lines in the consumer-driven healthcare field—with a business model that enables customers to share in its success.

Outsourcing Non-Core Functions in China's Growing End-Market

Another trend we've been studying keenly at GGV Capital is China's urban growth and the businesses that address its emerging domestic market. Between 2005 and

2030, China's urban population is expected to grow from 560 million to 910 million—64 percent of China's total population.⁸ That growth is fueling the rapid emergence of strong domestically focused companies. Even in the midst of a strained global economy, China's gross domestic product in the first quarter of 2008 rose 10.6 percent year-on-year.⁹

In the midst of rapid economic development, Chinese companies are proving very adept at importing business models, concepts and best practices from the world's great companies. Lenovo is a well-known example of a Chinese manufacturer that utilizes modern practices exported from leading global manufacturers such as GE. Chinese businesses are also taking a cue from the many American and European companies that outsource non-core functions in areas such as HR. However, while this transition in Europe and the U.S. took decades, China's adoption is taking just a few years.

GGV Capital's investment in China Talent Group (CTG—also known as “Yicai” in China) exemplifies this outsourcing trend. CTG provides a full suite of payroll, benefits and staffing outsourcing options to its clients throughout China. The company has enjoyed accelerated growth over the past few years, and it will end 2008 with more than 200,000 employees under management.

Chinese companies benefit greatly from outsourcing HR benefits administration and other non-core functions, and this provides CTG with momentum to continue building its brand, growing its sales and services capabilities, and scaling its operations. Like its counterparts in the U.S.—such as ADP, Paychex and Administaff—CTG expects to continue growing rapidly for many years to come as the company solidifies its leadership position, and Chinese businesses continue to adopt HR outsourcing as a best practice.

The Global View from GGV Capital provides insights and interviews on expanding global innovation.

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¹ McKinsey & Co., *The War for Talent*, 1998

² U.S. Department of Labor Bureau of Labor Statistics website

³ U.S. Department of Labor Bureau of Labor Statistics, *Employment Situation Summary, USDL 08-1252, September 5, 2008*

⁴ Gartner Inc. statistic cited by Timothy Chou, *The End of Software*, SAMS Publishing, 2005, page 7

⁵ Deutsche Bank, Tom Ernst, Jr., Greg Dunham and Nandan Amladi, *SaaS and Cloud Computing, Talent Management Should Weather the Storm*, July 7, 2008

⁶ Gartner Inc., *DataQuest Insight: SaaS Demand Set to Outpace Enterprise Application Software Market Growth*, August 3, 2007

⁷ Health Affairs, J.A. Poisal, et al, *Health Spending Projections Through 2016: Modest Changes Obscure Part D's Impact*. February 21, 2007: W242-253.

⁸ People's Daily Online, *Half of Chinese to live in urban areas*, July 12, 2007.

⁹ China View, *China's business climate index continues to drop in Q2*, July 7, 2008.