



Front Office Software – Part I (Trends)

June 2005

Front Office Software:

Killer functionality coming soon

While there are many compelling front office software packages available on the market today, none fully enable the dynamic business needs of today's complex staffing company. A number of market forces are starting to accelerate and shape the direction of front office software development. Staffing companies can expect to see new vendors to enter the front office automation market, consolidation of existing players and a much broader set of functionality as the market grows and matures. Dramatic change will occur as software vendors make real progress toward the enablement of key trends such as workforce management and human capital supply chain automation.

Reviving demand

Staffing companies are posting record earnings as the use of contingent labor and direct hiring picks-up. In the short-term, staffing firms would like to increase their profitability by placing more candidates without increasing staff. While that tactic will produce short-term gains, it is not a sustainable model on its own.

During the downturn of the last four years, most staffing companies had been holding off on upgrading their existing systems. As a result, the front office software space stalled as did many other software markets. The drive for operational efficiency has rekindled the exploration of systems to support these businesses. Front office software vendors are reporting an increase in prospects and sales due to pent-up demand.

In the longer-term, downward pressure on margins and time-to-fill, along with increased competition for scarce candidate skills, will create even more pressure on staffing companies to find new ways to grow their businesses.

Art Papas, Founder and CEO of front office staffing firm Bullhorn explains, "The number one driver that will reshape the staffing industry is the upcoming massive candidate and skill shortage. Where filling positions will become increasingly difficult for corporate recruiters, staffing companies will go out of business if they are unable to find more efficient ways to fill job orders." As the skill shortage develops, staffing companies will need to focus even more of their efforts on customer service and will become even more dependent on the automation of administrative and repetitive activities.

Strategic staffing companies are already starting to look for new front office capabilities. They understand that the use of best-of-breed technology will improve operational efficiencies and enable them to shift more of their attention onto customer service and candidate quality.

Front Office as a component of an integrated supply chain

For years now, focus has been on perfecting front office integration with back office systems to eliminate double data entry. Nearly all vendors offer integrated back office functionality and/or have proven integrations with leading back office systems such as Peoplesoft and Great Plains. Integration needs have now extended past the back office and include the need for data exchange with Vendor Management Systems (VMS), third-party service providers, Applicant Tracking Systems (ATS) and more. Staffing automation used to mean automation within the front office, now it means automation of the entire human capital supply chain.

VMS. Leading enterprises are streamlining and automating their resourcing activities through the use of Vendor Management Systems. VMS are designed to allow corporations to maximize staffing supplier performance. Many contingent labor orders are now received electronically.

At Kelly Services, orders are received electronically from over 20 different client systems. Even though many of the customers use the same VMS systems, each one has been implemented a little bit differently. "In effect, every customer integration is its own project." says Dana Warren, VP of Services at Kelly Services. Because electronic orders are received by competing firms at the same time, time to fill is becoming increasingly important.

The way contingent labor services are sold has also been impacted. Dana Warren explains "Traditionally, line managers and HR were involved in the purchasing decision for contingent labor. Now the sales cycle often involves procurement and IT." In fact, some staffing firms are focusing their sales efforts on the procurement groups and cutting out the traditional customer.

The ability to demonstrate measurable performance and tight integration between front office systems, ATS and VMS are becoming keys to effectively selling staffing services. Applications supporting the staffing business are being pushed to include client portals, order acceptance, integration of feedback from candidates and customers, web service integration and effectiveness reporting. Front office software vendors are beginning to incorporate these new business needs.

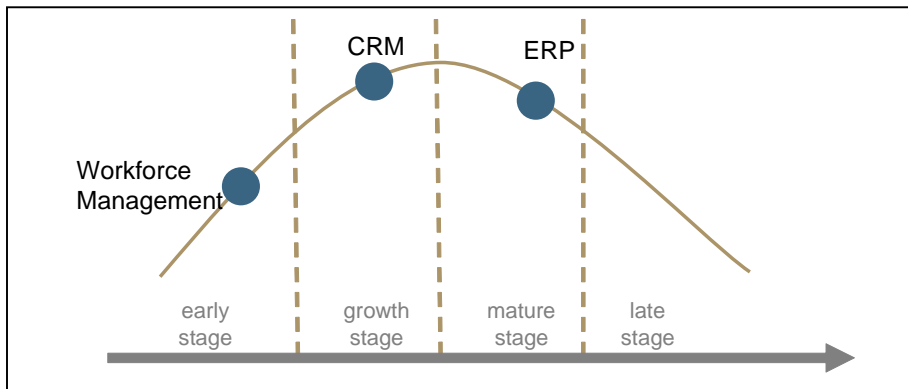
Third-party support services. More and more enterprise customers are requesting value-added services, especially background checking, which creates additional administrative functions for the staffing companies.

ATS vendors have been pushed aggressively by their clients to automate data exchange with these types of support service providers to minimize the administrative burden. Leading ATS allow recruiters to initiate requests for services directly from the system and have integrated status updates and reporting. Examples of this type of integration are describes in "Integrate Background Checks for Maximum Efficiency" in the May edition of SI Review.

Data exchange with background check providers is just the tip of the iceberg. Staffing companies are increasing their use of job boards, resume processing services, screening and assessment tools etc. All of these third-party support services require either manual data entry or some form of automated data exchange.

Staffing automation software that facilitates the exchange of data with third-party service providers will alleviate operational overhead.

Workforce management. Front office staffing software is part of the workforce management software market, an early stage growing industry. While the workforce management industry is clearly driven by corporate HR organizations, we can expect the entire supply chain to be affected by this new market. As the workforce management industry grows, more development dollars will be spent on human capital management software, in general, and front office software functionality will benefit.



Just as ERP impacted manufacturing suppliers and CRM affected advertising and marketing suppliers, workforce management will impact staffing suppliers. We can already begin to see this impact as corporate clients work to enable some of the more basic performance metrics across their supply chain like quality of candidate by source and total visibility of labor spend.

Vendors respond by broadening their offerings

We have already seen leading vendors begin to broaden their offerings so that they provide end-to-end solutions that have the potential for meeting the workforce management requirements and automating the human capital supply chain.

Traditionally, staffing companies have been more responsive to vendors whose sole focus is on serving the staffing industry. Vendors outside of the Front Office space are now offering credible options and staffing companies are looking to adjacent software markets, such as ATS, that may have advanced applicable functionality faster than traditional front office vendors. Similarly, traditional front office vendors are announcing plans to enter the corporate recruiting space with Applicant Tracking Systems (ATS).

For example, Taleo announced that they would be actively marketing to the small and medium staffing market in addition to their traditional market, corporate recruiting.

Bond International Software Group, a leading front office software provider, announced that they would be introducing a corporate recruiting solution based on their front office product Bond Adapt. David Read, Bond President explains “We will start with our Bond Adapt solution and configure it as an ATS, targeting the corporate market. We believe that our current customers will benefit from our expansion into the corporate recruiting market since we will be able to offer a full and integrated human capital management solution.”

The following chart highlights the relative strengths of ATS and Front Office markets.

Capability	Corporate ATS	Front Office
Requisition approval	✓	
Timecard entry and approval		✓
Legal compliance	✓	
Candidate portals	✓	✓
Client portals & integration of electronic orders		✓
Client/employer feedback on placement		✓
3 rd -party service provider portals & integration (e.g. background checking, resume processing)	✓	
Candidate/job ownership & compensation credit management		✓
Multi-branch, multi-division and customer hierarchy		✓
Back office integration		✓
Workforce management vision	✓	

In some cases, software originally designed for contingent recruiting has morphed into corporate workforce management. Additionally, back office providers have acquired companies that now allow them to offer front office functionality.

It is important not to become hung up on classes of software as software companies begin to change their offerings. The “front office” functionality that serves the needs of one firm may be provided by an ATS. Understanding the scope of requirements will allow for the best alignment of business objectives and software. Clearly, you’ll want to consider a wider set of vendors than you may have in the past so that you have access to a wider set of business capabilities.

How to you develop your Front Office Strategy?

With so many options to consider, it’s easy to get overwhelmed by the details. The key to success, however, is to keep the complete picture in focus. If you start there and proceed logically, it is possible to transform staffing into a *repeatable process* that can take you all the way from “we got an order” to a happy customer. The back office systems that support your business need to be the foundation upon which you build. As VMS, ATS and front office staffing begin to collide, those who understand their business best will be best equipped to implement the systems that best support their business.

In next month’s article we will look at specific vendors to see how they are stacking up against the demands of modern staffing firms.

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Aside: Software vendors are consolidating. What does it mean?

As the workforce management market matures, we can expect to see an increasing number of mergers and acquisitions across the space. Software acquisitions have a huge impact on the pre-existing customer software base. Front office software buyers will want to foretell the future to avoid the potential downside of acquisitions (e.g. diminished service). On the other hand, acquisitions give greater hope for a silver bullet solution in the future.

There are strategic reasons to make an acquisition of another company and coming up with the value of an acquisition is challenging. There are at least three elements in any valuation: customers, people and technology. When most people think about software company acquisitions, they think about technology but the reality is that many software company acquisitions are about acquiring customers and expert employees.

Keeping in mind that software companies are in the business of making money, does it make sense to maintain separate development and support teams after an acquisition? Software company acquisitions typically go one of two ways. Firstly, and most brutally, the customers are acquired and the employees are gutted. It means poor support for the customers and little chance for product evolution. Many successful companies have all built profitable businesses this way.

The second post acquisition strategy is to mastermind a next generation product and use the pooled development resources to build the next great thing. Oracle is currently running "Project Fusion" to decide the product upgrade path it will offer the customers of its myriad acquisitions (not the least of which is Peoplesoft). Microsoft is running "Project Green" to decide the product upgrade path and the allocation of its development resources to its Axapta, Navision, Solomon and Great Plains acquisitions. These projects may take years to bear fruit.

Consolidation means support for your existing application may diminish. Eventually you will be offered an upgrade path to a new application. Remember that other vendors would be very happy to have your business. Before accepting the long awaited upgrade offer from the acquirer of your existing application, be sure to review other vendors that may be more committed to moving their product forward.

Aside: A trend toward hosted solutions

Rather than a capital expense, many staffing firms are choosing to pay for software as a utility. "A significant portion of our clients are going to a hosted model," says Steve Taylor president of staffing software company VCG, Inc. "That's one trend you can take to the bank."

There are several advantages to this Application Service Provider (ASP) model. Firstly, it allows staffing companies reduce their IT infrastructure costs. Many ASPs have service level agreements including penalty clauses if the service levels are not met. As an example, it is not unreasonable for the provider to guarantee the software will be available 99% of the time. These kinds of service levels are often difficult for internal IT groups to meet. Security of the data is a valid concern and it's necessary to find a trusted vendor.

ASPs are often the most cost effective solutions for migrations. Whether moving to an ASP, off of an ASP or to another ASP, good contracts include provisions for migration. Contracts should include data and format requirements for smooth transition between providers. Peter Clare, Vice President of Recruiting Solutions for ASP provider HireDesk explains, "Our service levels have to be as good or better than what our customers receive from their internal IT groups. All our contracts specify backup, migration and service level guarantees. Because we are able to do this for literally hundreds of customers, we are able to provide the service at a lower total cost to the companies we work with."

Software architectures have changed significantly in the last five years. Hosted applications now allow clients to configure and integrate them into existing systems. If a vendor is serious about its flexibility, it should be able to provide you with a documented Application Programming Interface (API).