Selecting the Right Deployment Option for Employee Performance and Talent Management Systems

On-Demand vs. On-Premise:

Deciding what is right for you

the Fact Point group

About this white paper

This white paper is designed for organizations that are considering employee performance and talent management software either as a hosted service (On-Demand) or installed on their own premises (On-Premise). This document also will be useful to companies that have outgrown their On-Demand offering and want explore an On-Premise solution, or vice versa. It addresses issues that should be discussed with the company's IT department and outlines a decision-making framework to help companies decide which delivery option suits them best.

Methodology

For this paper, FactPoint interviewed Halogen Software executives and customers regarding the issues involved in deploying their employee performance and talent management software. Halogen is a market-leading vendor that offers both On-Demand and On-Premise options, therefore, the vendor and its customers could provide impartial perspectives on this topic. FactPoint also drew on its past research on this topic, including interviews with end users of other applications on how they chose between an On-Demand or an On-Premise application.

Executive summary

As with the example of dining out at a restaurant, choices are desirable in deploying enterprise software. Some vendors of employee performance and talent management software don't offer deployment choices and force users to exclusively deploy their products only either On-Demand or On-Premise. Vendors such as Halogen Software offer their solutions "On-Choice"; meaning customers can choose between an On-Demand or On-Premise model, and can easily switch between the two as business needs change. Customers can also take advantage of multiple licensing options.

On-Demand applications have recently emerged as an important technology trend. But they remain a relatively small part of the overall software market, because this model doesn't work for everyone. In general, On-Demand applications are attractive for companies with scant in-house IT resources, or those who wish to deploy very quickly, or only as a pilot project.

Companies that require greater flexibility, greater control or customized capabilities may find On-Premise more suitable, as would those with corporate or regulatory requirements about controlling sensitive employee data. Organizations that must integrate data into other enterprise applications may need an On-Premise solution, as well as companies with quality control programs such as Six Sigma.

The flexibility of a third option – On-Choice solutions – enables organizations to future-proof their business as their needs and priorities evolve. When their circumstances change, organizations need enterprise software able to keep pace. Companies may need different deployments at different times

in their lives, and they need flexibility and control over their technology solutions, not vendor lock-in. However, although the ability to move employee data between On-Premise and On-Demand deployments should be simple, it's not always so easy.

This white paper includes a decision framework that outlines considerations that organizations must keep in mind when deciding whether an On-Premise or On-Demand application best suits its needs. In the end, each company must decide how much weight to give each factor. Different corporate priorities will produce different deployment decisions.

Definitions and key principles

This white paper addresses On-Demand and On-Premise options for deploying employee performance and talent management software, and the importance of having the choice to move between them as needed. Let's start with definitions:

- **On-Demand:** An On-Demand application is installed and runs on computer hardware at the vendor's data center. On-Demand is also referred to as a "hosted." Sometimes it is referred to as "Software as a Service" (SaaS), which in addition to being hosted also implies a "subscription" licensing model. With SaaS you rent the software – not own it. Users access the application over the Internet using a Web browser.
- **On-Premise:** An On-Premise application is purchased and installed and runs on hardware servers at the customer's site. It is generally maintained by the customer's IT department. On-Premise is also referred to as "On-Site."
- **On-Choice:** An On-Choice application allows customers to deploy the software the way they want – either hosted at the vendor's data center (On-Demand) or on the customer's premises. On-Choice also allows organizations to choose the licensing model – subscription-based or perpetual (rent it vs. own it).

For maximum flexibility, companies evaluating software should start with two basic principles:

- **Seek vendors that offer multiple deployment options.** Let customers change their deployments as the business evolves and HR requirements change.
- **Avoid vendor dependency.** With some HR software vendors, customers cannot configure the software themselves. Instead, they must rely on their vendor to make changes—usually on the vendor's schedule and always at additional cost. Also, how much pain will the organization endure by switching software vendors—will vital data move easily to a new system?

Decision framework: On-Premise vs. On-Demand

To approach the decision of whether an On-Premise or On-Demand application best suits a company's employee performance and talent management needs, the organization should consider three different sets of factors:

- Business requirements
- Security considerations
- IT capabilities

Business requirements

Business requirements to consider may involve budgeting, timelines and back-end management/ organizational issues. The weight of each factor will vary by organization.

"Cost was one factor, but it wouldn't have swung the decision either way."

Nonie Strike, senior manager, MIS, Network Solutions

Total Cost of Ownership: To compare deployment options, perform a Total Cost of Ownership (TCO) analysis of each option. Include costs of hardware, software, training, IT and HR resources to manage the application. If the IT department charges HR for an On-Premise deployment, add in that cost.

Different licensing options affect cost too. In general, software companies license their software in two ways. They charge for their products by selling a perpetual license (the customer buys the software) or by charging a subscription, often via a monthly fee. Calculate costs for both subscription and perpetual licenses in the TCO study.

Organizations should look at costs over three- and even five-year periods. In general, the upfront cost of a perpetual license is significantly larger than the monthly subscription to rent the software. As monthly subscription fees are relatively low, a subscription license may appear cheaper in the short term, but over time that equation may shift, so a longer-term view is important. Some companies budget for software in their capital budgets, not as operating expenses, so that changes the TCO calculation.

Some On-Demand providers offer teaser prices, and then hit customers with hidden charges for data storage, data back-up, add-on modules of key functionality, activation charges, data migration, etc. These extras often go beyond the vendor's price list. Charges for "extras" can quickly drive costs sky high.

Also if an organization may need to switch the type of deployment they have chosen, potential vendors should be asked if they can move employee data seamlessly —even to another provider. Is the code base the same for On-Premise and On-Demand versions of the software so customizations can be maintained? Will big fees be charged to switch?

Urgency: On-Demand is generally faster to implement, but it's not instantaneous. If a company needs a stop-gap solution for a limited time, an On-Demand solution can buy time to get to the next phase. Large implementations often start with a pilot project, and an On-Demand solution makes a good pilot.

Back-end management tools: Can company staff – HR or IT – configure and manage the application? Or must the vendor make changes, for a price? At technology company Network Solutions, IT manages the On-Premise Halogen application. At defense contractor L-3 Communications, HR does.

"When I looked at the solution, it was very straightforward and easy to understand. It was also offered as a hosted solution, which also appealed to us because we would not need to support any back-end infrastructure required to operate the program."

—Ken Butler, Arbitration Forums

Comfort with outsourcing: Many companies outsource payroll and retirement plans. Does the company already use On-Demand applications for customer relationship management (CRM), procurement or supply chain applications? If the company is already comfortable with outsourcing, then On-Demand software is not a huge leap. If the company carefully keeps key functions in house, it might be hard to persuade IT or management to go On-Demand.

"We went in with the requirement that it was an in-house [On-Premise] solution – we are a technical company. We are more comfortable with more control and not very comfortable having others in control of these systems."

—Nonie Strike, senior manager, MIS, Network Solutions

Human Talent Management as differentiator: If a company has developed a core competency in HR that gives it a strategic advantage over competitors, the choice of employee performance management software should reinforce that edge. If the company views HR more routinely, it may opt for On-Demand.

Security issues

"We started with hosted, because it really appealed to us, and it worked wonderfully. But our people started to question the privacy of information they wanted to put into performance appraisals. They felt it was too much of a risk. People asked to bring it in-house, so we did. It was very quick and easy."

—Alicia Van Blair, HR manager, L-3 Communications

How touchy is the organization about security? Specific privacy safeguards apply to personnel information, so the vendor's security must meet company standards. If security is a top priority for management, the company may decide against an On-Demand solution. On-Demand should not be automatically rejected in favor of On-Premise, but the risks of arguing to outsource should be calculated.

Data security: Under corporate policies, can personnel data be stored outside the enterprise? If so, then On-Demand is viable. If not, then an On-Premise solution inside the firewall makes sense.

"We decided to host the solution ourselves. The CEO at the time we purchased Halogen did not like the idea of outsourcing software if it meant our data would leave the building. He wanted us to maintain control of that data mostly due to security concerns. However, that may change under our new leadership and it is nice to know that if we need to make that change Halogen can accommodate us."

--Jim Frain, VP of Human Resources, South Bend Medical Foundation

Regulatory aspects: Do regulatory requirements for handling personal data apply? Stricter data privacy rules apply in Europe than in the U.S. Whether using On-Demand or On-Premise, special handling may be required for European employees.

Data mobility: What happens to employee data when the organization switches software vendors or simply changes how it deploys the application? It is important to avoid excessive charges.

External users: If outside payroll services or retirement plans are used, they may need access to certain employee data. How easy are special connections to set up? Does the system, On-Premise or On-Demand, allow access from outside the firewall? Can managers work on employee evaluations from home?

"The application is not externally available, except through a VPN (virtual private network). That's a security feature, and that wouldn't be the case with a hosted solution. On-Premise means that the company's security requirements are all met."

—*Nonie Strike, senior manager, MIS, Network Solutions*

IT capabilities

In dealing with the hard-pressed IT department to implement an employee performance and talent management solution, the best strategy is to involve IT early in the deployment decision. Some things to discuss include:

IT capacity: If IT resources are stretched thin, then IT staffing becomes a decision criterion. On-Demand generally puts fewer demands on IT, but some IT departments cringe at On-Demand applications that run outside their control. An On-Premise application often, but not always, requires more IT attention.

And keep in mind that capacity can change. When Interstate Electronics unit of defense contractor L-3 Communications selected its employee performance and talent management software, it was simultaneously implementing a new enterprise resource planning (ERP) system. IT was thrilled that the new employee performance appraisal software could be hosted by the vendor. Later needs changed and L-3 moved seamlessly to On-Premise.

IT skill set: Does the IT department have people with adequate skills to host and run the application internally? Application management requires specialized skills, so IT departments must have or acquire skills to run the On-Premise application. If an organization doesn't have this skill set within its IT team, the organization could opt for an On-Demand implementation and let the vendor manage the application.

"For Halogen, either choice is a good choice. If you don't have people who can support the system in-house, go hosted."

—*Nonie Strike, senior manager, MIS, Network Solutions*

Physical IT infrastructure: Does the IT department have servers, networking equipment, database capacity and data center space to run the On-Premise application? If capacity exists, the On-Premise option becomes more attractive. If not, that's an argument for On-Demand.

Integration: If the employee performance and talent management application must tightly integrate with legacy software, then On-Premise may work better. If the application runs primarily in HR needing little integration, On-Demand may suffice.

IT Priorities: If the IT department has a core competency in HRIS systems, consider installing the application On-Premise. But if HR is not a priority for IT, or there are competing business priorities, why not pick On-Demand?

"IT strongly preferred the hosted solution. An employee performance and talent management application is not their core competency or business focus. They can support this type of system, but it takes time away from other core IT and business issues."

—*Maggie Hird, executive director of HR, Educate Online, Inc.*

Customization: Start with the organization's current HR processes. How do they match up against each solution being evaluated? Can the application be easily configured –without coding changes or vendor involvement –to meet the organization's specific requirements? The best scenario is that both On-Premise and On-Demand options offers this independence and flexibility. If not – and if coding changes are required—On-Premise may be the best option. If the out-of-the-box capabilities are aligned with business processes, consider On-Demand and put the IT group to work on higher priorities. Critical: Ask every vendor if customizations can be maintained when upgrades are released

IT as differentiator: Are IT operations a source of competitive advantage? If so, the company may opt for On-Premise software and then let the IT gurus work their magic. If IT operations create headaches, then definitely consider an On-Demand solution.

Why On-Choice is essential

On-Choice, the ability to buy software either On-Premise or On-Demand, lets organizations future-proof their business. When circumstances change, organizations need employee performance and talent management software that is flexible enough to change with the organization's needs. Does the application vendor provide different deployment options? Can a customer switch easily from On-Premise to On-Demand? Can the customer then switch back? Are multiple licensing options offered?

Companies need flexibility and control, not vendor lock-in. Vendors should let customers change their minds as their requirements change. Seek a software vendor with multiple delivery options and flexible licensing options to suit the organization's situation.

"Halogen was able to offer us the option of deploying On-Premise so we could maintain control of our HR systems. Having a choice means we are not tied into a single deployment method and we can switch if our situation calls for it. This ultimately reduces our long–term risk."

--Katrina Agusti, senior analyst with Carhartt.

From On-Demand to On-Premise—and back again

Educate Online, Inc., which delivers supplemental education services to students and their families, started with Halogen On-Demand because it had to complete appraisals within 30 days. Later, that division moved to an On-Premise implementation.

"Initially we used Halogen On-Demand for 200 or 300 users. In the second year, we bought servers, went On-Premise and added another 1,000 users," said Maggie Hird, executive director of HR for Educate Online, Inc.

However, the company recently lost IT support when its parent company changed organizational structure. "Now I'm moving back to On-Demand. Our corporate IT was already very busy and we don't have additional servers, so we would have to invest significantly to keep Halogen On-Premise," Hird added.

"When you are in sales or acquisition mode, Halogen makes it pretty easy to stay with the same platform and retain our performance appraisal history. We chose On-Demand or On-Premise based on the needs of the business."

About The FactPoint Group

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About Halogen Software

Halogen Software Inc. is a market leading provider of employee performance and talent management solutions. Halogen has successfully delivered their On-Choice deployment and licensing model to over a 1000 customers worldwide. www.halogensoftware.com

On-Choice is In Demand – For Talent Management