USA Market
Entry Research CDP

Authored by

Alex Zeng-Yang
Mutiu Fakorede
Jonathan Vergara-Phan
John Chetwynd
Nikita Tkachenko

San Francisco, August 4, 2023

Table of contents

Executive Summary

This report offers an in-depth analysis of the US Human Capital Management (HCM) software industry, focusing on market dynamics, trends, and strategic recommendations for CDP's successful entry into this competitive landscape.

1 | Key Findings

Through extensive interviews with industry clients and vendors, the following insights were uncovered:

1. **Market Saturation**: The US HCM market is densely populated across all segments - lower, mid, and high-street. Midsize companies frequently switch vendors, seeking comprehensive solutions. Companies often change vendors as they grow to accommodate their evolving needs.

2. **Dominant Players**: Established names like ADP, UKG, and Workday control the mid and enterprise market. Large firms often integrate smaller vendors to fulfill specific needs beyond HCM.

3. **Quality over Price**: While pricing is essential, convenience, quality, and growth opportunities are equally vital in vendor selection. A high price is sometimes perceived as a signal of quality, but knowledgeable decision-makers focus more on value. It's crucial not to underprice products, as this can lead to a perception of low quality.

4. **Expansion and Online Presence**: Midsize companies aim to expand into the 1000+ enterprise segment. An international presence and robust online visibility are key to attracting and converting clients.

2 | Recommendations

CDP should adopt a direct yet strategic entry approach, potentially followed by a merger with a mid-size player or a mature startup (5+ years in the market, breakeven status). This strategy would offer an established customer base, saving time and resources.

Brief Overview of the HCM Industry

HCM companies offer solutions to help businesses manage their workforce effectively. Global leaders include Oracle, SAP SuccessFactors, Workday, ADP, Paychex, and Ultimate Software. Services are personalized and people-centric, catering to various industry sizes.

1 | Market

1.1 | Brand Presence

A company's online presence is vital for brand representation. Current inconsistencies in website construction, text, and style must be rectified. A rebranding focus on enhancing online presence, user experience (UX), and consistent messaging is essential.

1.2 | Global Growth Trends and Forecasts

The Global HCM market, valued at USD 26.63 Billion in 2022, is expected to reach USD 53.61 Billion by 2030, growing at a CAGR of 9.2%. North America will contribute 34% of this growth between 2023-2030, with the US as the primary revenue generator.

1.3 | The US HCM Market

Valued at USD 12.11 Billion from 2020-2025, the US accounts for approximately 46% of the global HCM industry. Growth drivers include increased investments, adoption of cloud-based solutions, and the shift towards remote work environments due to COVID-19. Emerging technologies like Robot Automation, Machine Learning, and Generative AI are also influential.

The talent management segment sees significant growth, with smaller players leading the way. The IT and telecommunication sector is the fastest-growing adopter of HCM solutions.

Certainly! Below is the revised section with hyperlinks to the mentioned companies and products:

2 | Key Market Segments

2.1 | Small Enterprises (FTE < 100)

Small enterprises have distinct needs compared to larger companies. The main value lies in the growth potential, making it an appealing target for larger players. The selection criteria for this segment usually revolve around cohesiveness of UI, nativity, and ease of integration. Companies popular in this segment include Gusto, Rippling, Bamboo HR, and ADP.

2.2 | Medium Enterprises (FTE 100-400)

Medium enterprises consist of mature companies with potential for transitioning into corporations. Companies in this category often lack a dedicated IT team to handle administrative complexities. Customization and pricing are the major selection criteria for this segment. Companies serving medium enterprises include Bamboo HR, Sage, and Workday.

2.3 | Large Enterprises (FTE > 500)

Large enterprises require vendors capable of processing data for thousands of employees across multiple locations. UKG (Kronos), ADP, and Paycom are among the few vendors meeting these requirements.

Large enterprises value one-stop shop solutions and ease of administration. The selection criteria for this segment focus on the end-user interface, costs, and ease of system administration.

Certainly! Below is the revised text with hyperlinks to the companies and products mentioned:

3 | Competitive Landscape

The US HCM market's competitive landscape is both dynamic and rapidly evolving, marked by fierce competition among established players, emerging startups, and tech giants venturing into the HCM space. The rivalry hinges on technological innovations, product features, service quality, pricing, and the capacity to offer comprehensive and tailored solutions.

3.1 | Analysis of Competitive Landscape

1. **Established Players:** Firms like ADP, Ceridian, and Workday have carved out a significant market share with their all-encompassing HCM solutions. Their dominance stems from an established reputation, extensive product portfolio, and vast customer base. These players cater to a diverse clientele, ranging from small businesses to large corporations. However, they often grapple with challenges such as elevated pricing and intricate user interfaces.

2. **Emerging Startups:** Newcomers like Gusto, Rippling, and via Photon are reshaping the competitive dynamics by harnessing cutting-edge technologies like AI and ML. They offer innovative, user-friendly HCM solutions, primarily targeting small and medium-sized enterprises with cost-effective, easily integrated options.

3. **Tech Giants:** Powerhouses like Oracle and SAP are capitalizing on their abundant resources and technical prowess to furnish advanced, integrated HCM solutions, mainly aimed at large enterprises.

3.2 | Major Competitors and Market Share

1. **ADP:** ADP serves a broad spectrum of company sizes, from giants like T-Mobile (10000+ FTE) to fledgling startups (<10 FTE). Their scalable solutions are tailored to each company's specific needs. Rivals include Paychex, Paycor, Paylocity, Paycom, TriNet, Gusto, Landmark, and Homebase.

2. **Ceridian:** In the small to mid-market, Ceridian faces competition from Paycom, Paylocity, and ADP. In the mid to enterprise segments, rivals include Workday, Namely, and Sage. SAP and Oracle are competitors in the enterprise with ERP segment.

3. **viaPhoton:** Direct competitors encompass Workday, Ceridian, SAP, ADP, Bamboo, Gusto, and some PEOs.

3.3 | Emerging Players

1. **BambooHR:** BambooHR offers a cloud-based HR software platform tailored to small and medium-sized businesses.

2. **Namely:** Namely delivers a comprehensive HCM platform for mid-sized firms, emphasizing a user-friendly and intuitive experience.

3. **Zenefits:** Zenefits furnishes an all-in-one HR, payroll, benefits, and compliance platform, specifically designed for small and medium-sized enterprises.

4. **Gusto:** Gusto specializes in providing payroll, benefits, and HR solutions exclusively for small businesses.

5. **Paycor:** Paycor features a unified HCM platform encompassing HR, payroll, time and attendance, benefits administration, and talent management, catering to a diverse array of industries and company sizes.

4 | Regulatory Environment

4.1 | Relevant US Regulations and Standards

Several regulations guide the HCM market in the US:

1. Fair Labor Standards Act (FLSA): The FLSA establishes minimum wage, overtime pay, recordkeeping, and child labor standards. It ensures that employees are fairly compensated for their work and are protected from exploitation.
2. Equal Employment Opportunity (EEO) Laws: EEO laws prohibit discrimination based on race, color, religion, sex, national origin, age, disability, and genetic information. These laws promote a diverse and inclusive workplace where everyone has equal opportunities.
3. Family and Medical Leave Act (FMLA): FMLA provides eligible employees with up to 12 weeks of unpaid, job-protected leave for specified family and medical reasons. It allows employees to balance work and family responsibilities.
4. Occupational Safety and Health Administration (OSHA): OSHA sets and enforces workplace safety and health standards to protect employees from workplace hazards and ensure a safe working environment.
5. Immigration and Nationality Act (INA): INA establishes the legal framework for immigration to the United States. It governs the employment of foreign workers and their eligibility for work visas.
6. National Labor Relations Act (NLRA): The NLRA protects employees' rights to organize and bargain collectively with employers. It ensures that employees have a voice in workplace decisions.
7. Employee Retirement Income Security Act (ERISA): ERISA sets standards for employee benefit plans, such as pensions and health insurance. It protects employees' rights to receive promised benefits.
8. Privacy and Data Protection Laws: Various privacy and data protection laws govern the collection, storage, and use of employee data, ensuring the confidentiality and security of sensitive information.
9. SEC Rule (Human Capital Disclosure and Board Diversity Rules): The SEC Rule requires public companies to disclose information about their human capital management practices and board diversity.
10. Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA): PRWORA governs welfare and work-related programs, encouraging self-sufficiency and employment.
11. Americans with Disabilities Act (ADA): ADA prohibits discrimination against individuals with disabilities and requires employers to provide reasonable accommodations.
12. Affirmative Action Plan Reporting: This involves federal contractors and subcontractors having affirmative action plans to promote equal employment opportunities for minorities, women, veterans, and individuals with disabilities.

These regulations apply to all levels (large corporations, mid-size, and startups) but to varying degrees.

4.2 | Compliance Requirements

As workplace legislation evolves rapidly, companies need to exert more effort than ever before to remain in compliance with current standards. These standards apply to various areas, including payroll, benefits, employee relations and recruitment, and health and safety. Ensuring compliance is crucial to avoid penalties and maintain a positive brand reputation. Products like Compli provide compliance management solutions tailored to these needs.

5 | Customer Preferences

5.1 | Buyer Persona Analysis

1. **Startup Founders/Small Business Owners:** This group often values simplicity and cost-effectiveness. They may have limited HR experience and therefore gravitate towards user-friendly platforms like Gusto, which handle various HR tasks, such as payroll, benefits, and compliance.

2. **HR Managers in Mid-Sized Companies:** HR managers in mid-sized companies often look for robust solutions like BambooHR that can handle increased complexity without overwhelming their teams.

3. **C-Level Executives in Large Enterprises:** In larger organizations, decision-makers often prioritize

data security, customization, integration with other enterprise software, and detailed analytics and reporting capabilities. Solutions like Oracle HCM Cloud cater to these needs.

4. **HR IT Specialists:** These are technical decision-makers who are interested in the software's underlying technology, integration capabilities, and scalability. They evaluate HCM software from a technical perspective and may consider platforms like Workforce Software.

5.2 | Buying Behaviors and Trends

1. **Emphasis on User Experience:** As the workforce becomes more technologically savvy, there's an increased demand for intuitive, user-friendly platforms like Zenefits.

2. **Increasing Demand for Integrated Solutions:** Businesses are leaning more towards comprehensive, all-in-one HCM solutions like Kronos Workforce Ready.

3. **Data-Driven Decision Making:** There is an increasing emphasis on using data analytics for strategic decision-making in HR. Therefore, HCM solutions with strong analytics and reporting capabilities like IBM Talent Management are more in demand.

4. **Remote Work and Mobile Access:** With the rise of remote work, there is a growing demand for HCM solutions that offer mobile access, such as Ascentis.

5. **Compliance Support:** Given the ever-evolving regulatory landscape, businesses are seeking HCM solutions like Namely that can help them maintain compliance.

6. **Focus on Employee Engagement and Wellbeing:** As organizations realize the importance of employee engagement and wellbeing on productivity and retention, there's an increased demand for HCM solutions that include features like performance management, employee feedback, and wellness program management, such as Ultimate Software's UltiPro.

Analysis

1 | SWOT Analysis

Using the renowned MARACA Framework for evaluating market opportunities, the table below shows how CDP is positioned to take advantage of opportunities within the US HCM marketplace.

Metric	Description	Status
Market Availability (MA)	**Market Size**: The opportunity in the US market, including the number of potential customers and amount of potential revenue.	CAGR = 9.2% over 8 years; ROI = 104%
Real-Time Analytics (RA)	**Traction**: CDP's current performance in this market.	CDP is not yet operational in the market. However, the market presents opportunities for aligning with local traffic, lead generation, close rates, and retention rates.
Customer Address-ability (CA)	**Ease of Entry**: How well do our current products and services address this market?	Strategic mergers and acquisitions; integration into existing infrastructure, including local payment systems; product localization; and local distribution channels.

1.1 | Strengths

- **Larger HCM players** like ADP, Workday, and SAP SuccessFactors have strong market positions, providing stable revenue streams and significant growth opportunities across various industries.
- **Mid-size organizations** such as BambooHR are recognized for their modernized all-in-one HR and IT platforms, enhancing user experiences and streamlining administrative tasks.
- **Emergence of HCM for smaller enterprises** has enabled even small companies to manage benefits, payroll, time, and attendance efficiently and inexpensively, opening up new potential market share for the HCM industry.

1.2 | Weaknesses

- **Large corporations** may face challenges with high labor costs, limited marketing expenditure, and decreased spending on R&D, potentially stifling innovation.
- **Medium-sized players** like Namely may struggle with a history of losses, limited offline operation capabilities, and smaller customer bases.
- **Smaller vendors**, such as emerging startups, may lack the technological infrastructure and diversified portfolios of their larger competitors.

1.3 | Opportunities

- **Larger players** can capitalize on the growing demand for cloud-based solutions like Oracle HCM Cloud.
- **Medium-sized HCM vendors** can benefit from expanding their product lines and focusing on customer migration to higher-end products like Zenefits.
- **New and emerging vendors** have the potential to disrupt the market by addressing not just product and technology infrastructure but also corporate structures and processes.

1.4 | Threats

- **External threats** include global recession, the aftermath of the pandemic, the ongoing Russia-Ukraine war, and declining sales and profit margins.
- **Software industry competition**, with many firms offering similar products, leading to a high availability of substitutes.
- **Changing compliance requirements** and regulations significantly impact operations, with the increasing importance of data privacy and security posing a threat.

2 | Market Entry Strategy

2.1 | Potential Entry Modes

(Original entry modes remain the same)

2.2 | Pricing and Marketing Strategy

1. **Pricing Strategy:** The pricing strategy should be competitive and value-based, aligning with the target market's willingness and ability to pay. Different pricing models can be explored, such as subscription-based pricing, usage-based pricing, and tiered pricing, similar to models used by Kronos Workforce Ready.

2. **Marketing Strategy:** The marketing strategy should focus on promoting the unique value proposition of the company's HCM solution and building brand awareness. Various channels can be leveraged, such as digital marketing, sales promotions, PR activities, and trade shows.

3. **Content Marketing:** Sharing valuable content that addresses the challenges and needs of HR professionals can help to establish the company as a thought leader, similar to strategies employed by Ultimate Software's UltiPro.

4. **Partnerships with Influencers:** Partnering with industry influencers and thought leaders can help to increase the company's visibility and credibility.

5. **Customer Success Stories:** Showcasing success stories and testimonials from satisfied customers can be a powerful way to demonstrate value.

6. **Free Tools or Resources:** Offering free tools or resources can attract potential customers to the company's website and build goodwill, a strategy often used by companies like HubSpot in their marketing efforts.

By focusing on customer retention as much as customer acquisition, and incorporating post-sale support, continuous product improvement, and engagement strategies, CDP can create a comprehensive marketing strategy for entering the US HCM market.

The revised section on Financial Projections, Risk Analysis, Recommendations and Conclusion, and Key Takeaways maintains the original information while improving the wording and grammar. The additional examples and context have been retained as well.

3 | Financial Projections

3.1 | Expected Revenue and Growth:

The expected revenue hinges on the product's adoption rate by potential customers. Assuming an average subscription cost of USD $100 per user per month, and an initial penetration of 1% of a potential market of 1 million businesses in the first year, the annual revenue would be USD $12 million. With an estimated CAGR of 9.2%, the revenue is projected to reach approximately USD $18.9 million by the end of the fifth year.

3.2 | Investment and Operational Costs:

The total estimated investment and operational costs range from USD $315,000 to $775,000 annually, expected to grow at an average of 3% YoY, in line with the US inflation rate from the US Bureau of Labor & Statistics.

The detailed breakdown of costs includes:

1. Market Research: USD $10,000-$30,000
2. Product Localization: USD $50,000-$100,000
3. Language Localization: USD $5,000-$15,000
4. UI Customization: USD $20,000-$50,000
5. Marketing and Sales: USD $30,000-$50,000 for strategy development, and $20,000-$50,000 per campaign.
6. Trade Show Participation: USD $10,000-$30,000 per event
7. Sales Team: USD $100,000-$300,000 per year
8. Customer Support: USD $50,000-$100,000 per year
9. Software Maintenance: USD $20,000-$50,000 per year

3.3 | Return on Investment (ROI) Analysis:

Given the estimated CAGR of 9.2% over the next 8 years, the ROI is projected at 104%. This represents a lucrative investment opportunity. However, it's essential to recognize that these calculations are estimations, and actual results may vary based on factors such as market volatility, customer acquisition rate, operational efficiency, etc.

4 | Risk Analysis

The US HCM market presents both risks and opportunities, which can be managed and explored through targeted approaches. Leading players conduct regular risk assessments, develop risk mitigation plans, and involve key stakeholders, focusing on internal and external risk drivers. Continuous monitoring and evaluation of risk management strategies are essential to adapt to evolving challenges in the dynamic HCM landscape.

4.1 | Market Risks:

Market risks involve socioeconomic fluctuations and an intensely competitive landscape. Economic downturns, industry disruptions, and market fluctuations can affect workforce planning and financial stability. CDP must institute scenario planning, cost containment strategies, and build agility in its operations.

4.2 | Operational Risks:

These include the need to keep up with rapid technological advancements and ensuring top-tier data security and privacy, talent acquisition and retention, and employee engagement and productivity. The increasing use of technology poses a growing risk of data breaches and privacy violations; low employee engagement can lead to decreased productivity, higher turnover rates, and reduced overall organizational performance; and recruiting and retaining top talent is crucial to remain competitive.

4.3 | Regulatory Risks:

Staying compliant with evolving labor laws, regulations, and compliance requirements is a significant risk factor. CDP must navigate a complex landscape of employment laws and regulations at the federal, state, and local levels, as non-compliance can lead to legal liabilities, fines, and reputational damage.

4.4 | Strategic Risk:

Integration with existing HR systems can present challenges. Adapting to the evolving nature of work with trends like remote work and the gig economy is crucial to maintain relevance. Inadequate workforce planning and succession management can leave organizations vulnerable to talent gaps in critical roles; the inability to implement new systems or evolve organizational changes can lead to resistance and disruptions.

5 | Recommendations and Conclusion

Entering the US HCM market presents a lucrative opportunity, considering its robust growth rate and evolving demands. Recommendations include:

1. **Innovative Offerings:** Differentiation through innovative product and service offerings, focusing on technological advancements such as AI, machine learning, and automation.
2. **Tailored Solutions:** Offering scalable and customizable solutions that cater to diverse needs.
3. **Data Security and Compliance:** Ensuring stringent data security measures and maintaining compliance with the latest labor laws and regulations.
4. **Partnerships and Strategic Alliances:** Collaborating with industry leaders and tech giants.
5. **Competitive Pricing:** Considering a competitive yet profitable pricing model, such as a tiered subscription-based model.
6. **Streamlined Solution:** Providing comprehensive products that appeal to customers of all sizes.

One viable strategy for entering the market is through mergers with or acquisitions of mid-size players, leveraging their established customer bases. While acquiring startups might present challenges related to acceptance and integration, aligning with leading players in the startup ecosystem could unlock valuable opportunities.

For CDP, it would be prudent to adopt a direct but strategic pilot approach to entry. This could be followed by a potential merger with a mid-size player or a startup that has matured for over five years in the marketplace and reached a breakeven position. Such a strategy would furnish CDP with an established customer base, conserving both time and resources that would otherwise be required to build the customer base from the ground up.

6 | Key Takeaways

1. **Market Growth:** The U.S. HCM market is promising, with a projected CAGR of 9.2% over the next 8 years.

2. **Market Segment:** The US HCM market is highly diversified across different segments, including lower, mid, and high-street.

   - Large companies often seek comprehensive solutions beyond HCM, such as Financial Planning and Talent Acquisition, and may integrate smaller vendors to meet specific needs. Few vendors effectively support a company's growth from startup to enterprise stage, with ADP being less preferred due to its price and complexity.
   - Midsize-focused companies aim to expand into the 1000+ enterprise segment, but established connections with vendors can make transitioning challenging without significant benefits. Midsize businesses often change vendors as they grow and need more sophisticated solutions.
   - Companies with an international presence may use different vendors across regions, as unified solutions are not commonly available.

3. **Diversified Service Offerings:** New entrants must provide a variety of service offerings to stay competitive, considering the changing dynamics of the workforce.

4. **Strategic Mergers and Acquisitions:** Merging with or acquiring midsize players can be an effective strategy due to their existing customer base. Startups may also offer potential opportunities, although they come with their own acceptance challenges.

5. **Competitive Pricing:** Efficient pricing strategies are vital for long-term survival. An organization's pricing approach can be influential but should not be the sole indicator of quality; convenience, quality, and growth opportunities are also key factors.

6. **Addressing Market Risks:** Awareness and planning for potential risks, such as socio-economic fluctuations, increased competition, rapid technological advancements, data security and privacy concerns, regulatory compliance, and changing workforce dynamics, are crucial.

7. **Strategic Entry Approach:** For CDP, a direct pilot approach to market entry is recommended, followed by a targeted merger or acquisition of a mid-size player or a startup with over 5 years of maturity and a breakeven position.

8. **ROI and Financials:** Despite investment and operating costs, the estimated CAGR of 9.2% by 2030 presents an impressive ROI opportunity of 104%.

9. **Adapting to the Future of Work:** The evolving nature of work, with trends like remote work, the gig economy, and freelancing, requires HCM providers to adapt their strategies and solutions to cater to these changes.

10. **Strategic Alliances and Partnerships:** Forming partnerships with cloud suite providers or similar entities can extend reach to a broader customer base and promote digital transformation. A strong online presence is essential for attracting and converting clients, as each company's unique brand presence appeals to different demographics.