



Why SaaS May Not be a Good Fit for HR

SaaS is a new and growing model that works particularly well in applications that have standard service that is used by all clients the same way. For example, web-conferencing is a familiar function, a SaaS application that many companies use for sharing information, for meetings, webinars, and conferences. Any organization regardless of industry, size, or culture can use this same SaaS application in exactly the same way.

Payroll processing is another example where the SaaS model has worked well. All payroll systems are subject to the same federal regulation, which makes it fairly standardized. In addition, the payroll function is quantitative and standard across companies and industries. Where the SaaS model for payroll can be challenging is for those organizations that compensate employees in unique and creative ways.

SaaS works best with standard processes. HR deals with non-standard plus evolving processes. An open and flexible HRIS is important.

Like payroll systems, HRIS involves recordkeeping and creating reports for government compliance. In addition a true HRIS provides important information for analysis and helps management make decisions, such as **who to hire? how much of a pay increase to give an employee? who to promote? and who to layoff?** The criteria used to evaluate employee performance (customer service, how well they work with others, self motivation, independent judgment) along with the more quantifiable data (attendance, education) make data management a difficult and dynamic challenge. Because data needs can vary greatly from industry to industry and from one organization to another, flexibility is crucial. It is important therefore to test this feature when looking at SaaS applications.

The Lilly Ledbetter Fair Pay Act of 2009 (which allows a former employee to file a pay discrimination lawsuit from several years in the past) underscores the importance of having a system that can generate the data and analytical reports to support your employment and compensation decisions. Specifically, it is important to track and maintain records of the **pay history** and **decision criteria** used by your organization: education, skills, proficiencies, experience, training, succession planning, performance evaluations, etc. And future legislation will again change the HRIS data tracking requirements.

HR systems need to be open and flexible to meet changing needs.

In his HR Executive article “*Beware the Pros and Cons of SaaS*”, Lowell Williams states, “HR executives should immediately recognize that this (SaaS) lower price tag also means lower levels of customization.” He then concludes, “The customer can access the system to manipulate and change data, but only within tightly constrained operating parameters.” That’s because the basic

system that the SaaS vendor maintains and updates, is used by many clients, so modifying the basic system for one client would affect other clients.

What happens when your needs change and your SaaS system does not track all the required information? When a salesman says that their SaaS system is “customizable”, often that applies to only an existing user-definable module. Is this level of flexibility enough to meet your needs?

Williams also warns that if you already use an application that cannot be adopted by the SaaS package, that application will have to remain and be maintained and developed in the traditional model. When doing the final cost analysis for SaaS, it can mean an *additional* cost to continue maintaining other systems.

In contrast, by using traditional licensed software like HRnetSource, the client can modify the core database product, not just to add new fields or change a user-definable page, but also create new or modify standard screens to track the information that your organization uses.

Here’s a link to view examples of how HRSource™ has been customized to meet unique end-user requirements: [Samples of HRSource customizations](#)

SaaS can cost a lot more in the long run.

SaaS is a sort of rental arrangement with limited up-front costs and fees. Since the fees can be adjusted periodically, the client is vulnerable to fee hikes. Some vendors charge a per-employee-per-month fee while others charge according to # of employees / server space used. Just like rent, your monthly cost continues as long as you use the system. This can be quite costly over the long run.

Under the traditional model (HRSource uses this model), a perpetual software license is purchased. The one-time fee (or payment plan spread over several months) makes the TCO (total cost of ownership) clear and defined. You can continue to use the system for as long as it meets your needs, increasing your ROI as each year passes.

The long-term cost of your HRIS will often be significantly less under the traditional licensing option. Depending on the number of employees, the break-even point can be 6 months to one year. If the organization is focused on quarterly earnings, then consider capitalizing and depreciating the asset, to improve the quarterly earnings statement.

Let’s look at some numbers. The cost of using a hosted service for the simple core database may run in the range of \$2 - \$5 per employee per month, not including any start-up fees.

Using an average employee monthly cost of \$3.50, we can see that the cost of a SaaS system adds up over time.

75 employees: \$3,150 (1 year) and \$9,450 (3 years)

125 employees: \$5,250 (1 year) and \$15,750 (3 years)

250 employees: \$10,500 (1 year) and \$31,500 (3 years)

Purchasing the traditional license of an HRIS software package will typically cost you more up front (although you can request a payment plan) than SaaS. However, the traditionally licensed software would be in your possession, reducing your ROI costs year after year.

Conclusions

The SaaS model is an effective option for organizations that track standardized data and use standard and routine processes. It is not as good a fit in HR where decisions are made using a complex array of criteria and by industries or organizations that have unique HR functional and performance needs. Regarding total cost of ownership (TCO), the long run outlook brings a higher overall cost using the SaaS model. As you evaluate which HR system is the best fit for your company, think about what type of system will be able to record, report and analyze the data that makes your company unique and competitive.

NOTE:

At \$995 for a single user license (one HR system administrator), HRSource is an excellent investment value and affordable to many organizations. That's why HR Magazine calls HRSource HRIS: the "HRIS With a Small Price". [HR Magazine review of HRSource](#)

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This article is written by Jeffrey E. Moe, president and founder of Auxillium West, developers of the HRnetSource™ Suite of HR software. Auxillium West provides a full range of HR software for small to mid-sized companies. Using the traditional model, all our software is stored at the client's site and is entirely open allowing the client to modify any aspect of the system. Clients can modify their system on their own or we are happy to help with that process.

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