

## Talent Management Systems Make Inroads With Employers

### Next-generation software products combine learning, performance and succession-planning functions in an integrated suite.

When Pitney Bowes reorganized corporate HR in the spring of 2003, learning management, performance management and succession planning moved under the same roof for the first time. It didn't take long for managers to realize that while they thought about those processes as related, the technology they relied on to track them didn't. In fact, the assortment of hosted systems they used to perform that work didn't share databases or even come from the same supplier. The result: a lot of duplicate data but not a lot of shared intelligence.

Coincidentally, the aging technologies were due for an upgrade. After studying their options, officials at the \$5.4 billion postage and mailing company decided that instead of upgrading individual pieces, they'd switch to an integrated system that would cover learning, performance management, succession planning and, eventually, knowledge management. Though Pitney Bowes is early into the transition, things look good. "After you make a decision and you're in implementation, you're training people, there's usually a moment of fear that (the software) doesn't do everything that was promised," says Larry Israelite, Pitney Bowes' director of strategic learning. "We're having the exact opposite feeling. ... It's so easy to use."

As Pitney Bowes goes, others are following. At a small but growing number of companies, stand-alone learning management systems are giving way to integrated software suites that produce a shared pool of employee data usable in multiple learning and HR functions. Using these systems, HR managers can, for example, assess which skills and training a new hire needs; sign them up for live or online classes; check test scores; create training and other job goals for performance reviews and monitor whether they're being met; and, finally, evaluate if and when the employee is ready for a promotion.

Some suppliers have taken to calling these integrated suites "human capital management systems," but some observers say that title is too broad. HR training and development consultant Josh Bersin prefers the term "talent management systems," saying it better describes the employee development side of the HR business that the software suites address.

Whatever you call it, the change toward more integrated learning and performance management is being driven by a surging economy, technological advances and supplier competition, according to company executives, vendors and industry analysts. As the U.S. economy improves, companies are adding jobs and looking for better, more efficient ways to maximize the talents of the people they hire. Improvements in Web-based technology and Web-based offerings mean systems are easy to use and cheaper to buy than upgrading old hardware. In some cases, companies don't have to host or maintain the software themselves.

The biggest motivator, however, could be that companies finally have realized that learning and performance are related--and they are acting accordingly. Before, organizational boundaries existed, "but now they see a lot of interdependencies and are restructuring HR departments accordingly," says Lois Webster, CEO of LearnShare, a learning technology solutions provider run by a 36-company consortium.

### "The LMS market is dead"

Use of talent management systems is by no means widespread. While a handful of early adopters, like Pitney Bowes, are embracing integrated suites, a good portion of American industry is just now buying enterprise-wide learning management systems.

According to consultant Bersin, principal of Bersin & Associates in Oakland, California, 55 percent to 65 percent of U.S. companies use some type of enterprise-wide learning management system. As first-time buyers enter the market and others upgrade existing learning management systems to include talent management, LMS sales in the United States should grow 16 percent a year through 2008, to \$755 million, according to research firm IDC in Framingham, Massachusetts.

Corporate interest in talent management systems is unifying what until now have been autonomous segments of a larger learning infrastructure industry. In the learning management industry, a spate of mergers and acquisitions over the past two years has trimmed the number of players to 70, analysts estimate. That's still an overwhelming assortment for companies to choose from.

To set themselves apart, vendors are adding a talent management suite to their mainline LMS products through in-house development, acquisition or product alliances. It's become so critical to expand that Peter McStravick, a senior research analyst with IDC's learning services group, says one vendor recently told him, "The LMS market is dead. You can't survive in the LMS business or e-learning as a pure play."

It's no surprise, then, that vendors are taking action. SumTotal, for example, offers a talent management suite based on its LMS and performance management software from SuccessFactor. The product of the merger of Click2Learn and Docent in 2004, SumTotal recently acquired another LMS vendor, Pathlore, to strengthen its customer base and balance sheet, making it one of the largest stand-alone LMS vendors in the business. Saba, another leading stand-alone LMS vendor, is acquiring Centra Software, a maker of virtual-classroom software, to round out its online learning and talent management systems capabilities. The deal is expected to close in January.

Another vendor, Plateau Systems, introduced a homegrown talent management suite in April 2005 and has since signed contracts with the U.S. Department of Transportation, NASA and British Columbia Hydro.

One of the first into the talent management business was Cornerstone OnDemand, which first introduced an ASP-only integrated human capital management suite in 2000 and changed its name from CyberU in May to reflect its changing business.

One of the newest entrants is LearnShare, which in the summer of 2005 began selling an ASP-based learning management system with competency and other talent management components to all comers; previously, the organization had marketed its LMS and e-learning technology only to the 36-member corporate consortium that operates it.

As LMS vendors broaden their product lines, it has prodded suppliers of stand-alone performance management systems to do likewise. According to analysts, the performance management industry looks a lot like the learning management industry did five years ago: lots of young companies with more good ideas than funds to capitalize them. The smart ones will add learning management and other modules to their product lineups or risk being bought out, says Bersin, the learning analyst. "It all started (in 2004), and it will accelerate" in 2006, he says.

## Tech giants in the wings

Major HR technology players Oracle and SAP have learning or talent management systems in some phase of development, but have been sidetracked of late by unrelated business issues. PeopleSoft, for example, was a major competitor in the LMS market and was developing a talent management suite, but that work has been on hold since the company was acquired by Oracle, which is updating its own LMS, analysts and competitors say. "That gives us a window to run while those larger entities are busy with" other things, says Paul Sparta, Plateau Systems' chairman and CEO.

But don't count the big guys out yet. As larger corporations consider adopting enterprise-wide learning management or talent management systems, they may want the kind of customer support and financial assurance a major supplier can offer, some analysts believe. Oracle and SAP--and possibly IBM--are bound to enter the market eventually, and when that happens, it could cause even more consolidation among LMS vendors, analysts predict.

For its talent management suite, Pitney Bowes signed a five-year deal with Cornerstone OnDemand to replace separate hosted solutions for learning and performance management for the Stamford, Connecticut, company's 33,000 employees. >From RFI to going live with the first phase of the project, the process has taken more than a year. But Israelite, Pitney Bowes' strategic learning director, says that's to be expected given the number of processes being designed and transferred. "It's the planning you have to do before you write the code," he says.

Israelite won't disclose how much he's spending to upgrade except to say the new system didn't cost any more than the technologies it's replacing. Cornerstone customers sign three-year contracts, with a small setup fee and monthly charges based on headcount and modules used, says Adam Miller, Cornerstone's founder and CEO.

Typically, fees for LMS licenses run \$20 to \$100 per employee for an initial setup and an additional 15 percent to 20 percent of that annually for support, according to Bersin, the learning industry consultant. Fees for performance management systems are the same or a little more, he says. Fees for integrated talent management systems should run a little higher as well, he says. "If it's \$50 per employee for LMS and \$50 per employee for performance management, it'll be \$75 per employee for talent management because (vendors) will discount," Bersin says.

For some companies, higher fees translate into savings. One Cornerstone client, a major staffing agency, used talent management systems to improve productivity, reduce turnover and increase sales, which the company expects will translate into an annual gain of \$20 million, Miller says.

According to some industry watchers, the current integration trend won't end with learning management, performance management and succession planning. Managers see a range of workforce management collaboration that could be included, such as recruiting and onboarding, says Sparta, Plateau Systems' CEO. "There are a lot more synergies to come," he says. "It's an integrated continuum of not just classic HR, of how do we pay people and give them their benefits, but of how do we improve how we're managing people in the workforce today."

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