WORKDAY-INSPERITY 'STRATEGIC PARTNERSHIP' STANDS OUT IN A SEA OF SMB HR SOLUTIONS

What Happened

Workday, which provides enterprise cloud applications for finance and human resources, and Insperity, a professional employer organization (PEO) that develops its own HR and business performance technology and services, announced a strategic partnership and plans to jointly develop, brand, market, and sell a full-service HR solution for small and midsize businesses. The companies believe combining Workday's technology and Insperity's service will create a solution that helps emerging companies achieve success and maintain growth.

Through the partnership, customers can take advantage of Workday HCM and Insperity's Workforce Optimization service, which includes dedicated HR specialists, payroll and benefits, risk management, and compliance support. The combination will enable businesses to seamlessly manage their entire employee lifecycle, from 'hire to retire' and optimize their talent management, payroll, benefits, and compliance efforts in a unified, cloud-based system.

Background

Professional service organizations, or PEOs, manage the HR activities of smaller businesses by providing shared services to handle back office functions like payroll, compliance, benefits administration, performance reviews, and talent acquisition. By outsourcing HR to a PEO, businesses get the advantages of full-time HR resources and workforce-management tools without shouldering the expense and risk they'd take by maintaining an in-house HR solution.

Traditionally, PEOs serve smaller businesses, those with headcounts that range from a handful to the low 100s. Insperity focuses much of its effort on serving small companies. More than 90% of Insperity's client base operates with a headcount of fewer than 1,000 employees, with less than 10% derived from middle market firms with greater than 1,000 employees **(Source:** NSP 10k filed Feb 2024**)**. On the other hand, eighty percent of Workday's customers have more than 1,000 employees. Nearly a third, 30%, employ more than 10,000. Many brands include Walmart, Amazon, CVS, AT&T and Alphabet.

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AT A GLANCE

Solution

Workday

Insperity

About The New Workday + Insperity GTM

The newly announced strategic alliance between Workday and Insperity will be guided by a GTM that aims to co-develop, market, sell, and support an SMB 'power offering' that brings the best of Workday's HCM technology together with the Workforce Optimization services of Insperity.

Digging a layer deeper, Insperity is going all in on Workday, embedding the highly adopted enterprise-grade Workday HCM platform into its operations as its primary service, enabling technology to power its PEO and ASO service offerings.

The Workday-Insperity partnership targets a healthy market. Nearly half of the 6.5 million U.S. businesses that employ less than 300 people use some HR software, but 59% still rely on spreadsheets and paperwork to address some of their HR chores.

One reason for that is cost. Employers might spend anywhere from $5 to $20 per employee per month on a cloud software solution on top of a monthly base fee. Because most companies require multiple solutions to recruit and manage their workforce, those costs can add up.

Making things more complicated is the limited customization options and the general focus of HR technology products on larger organizations. "It is clear that there is no one-size-fits-all solution for small to medium businesses," wrote business.com.

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3Sixty Insights estimates the combined solution could take as much as a year or more to enable and fully launch. First, Insperity must become proficient as a Workday reseller, deployment, and application support partner while adapting its service offerings and operations around the Workday platform. Additionally, the PEO service model requires specific nuances that are not standard to the everyday HR operation and buyer and will need development to support their requirements. Workday is already working on that.

About Workday

Workday Inc, founded in 2005 and headquartered in Pleasanton, CA, is a publicly traded (Nasdaq: WDAY), cloud technology provider focused on enterprise applications for HCM, Finance, Planning, and Analytics through the Workday Enterprise Management Cloud. Workday serves over 10K customers across more than 175 countries globally and supports over 65 million users, including 70% of the top 50 Fortune 500 organizations. Workday ranks #562 on Fortune's list.

Why It Makes Sense

This move is an absolute differentiator and a win-win arrangement for both firms. However, over the long term, it likely slants in favor of Workday, at least to some extent.

First, Workday needs to sell Workday licenses to continue its impressive growth trajectory. With the U.S. enterprise and upper midmarket somewhat saturated with cloud HCM adoption, Workday must push into additional markets. International and emerging locations and the public sector are certainly at the top of the target list.

However, Workday is missing a massive opportunity with lower mid-market and SMB buyers, a segment maturing toward and craving strategic HCM. These employers buy into the idea of all-in-one HCM technology and services platforms to access a one-stop shop of compliance and innovation.

Where Workday was left out of the SMB market lies in their often unapologetic higher-end price tag for their highly adopted, mature, and arguably market-leading apps. The licensing and deployment of their solution is fundamentally cost-prohibitive to firms below 500 employees and lacks the HR services + tech platform bundle that almost every HCM tech competitor playing in the SMB space offers.

On the other hand, Insperity, one of the oldest and top five largest PEOs in the U.S. (by total worksite employees serviced), has deep experience supporting, servicing, and advising emerging SMBs through its Workforce Optimization offering. Its highly adopted PEO solution provides young firms with a strategic HR foundation and operating model that pairs Insperity's deep expertise, leading practice process design - and soon Workday technology - to enable the infrastructure and insights for long-term, compliant strategic growth. In fact, in its earliest days, Workday itself relied on Insperity's PEO solution to enable its growth journey.

However, Insperity has lacked the robust HCM technology capability required to continue maturing with SMBs as their strategic HR needs evolve (generally when they grow into the 500-1000 employee range). Insperity has often referred to this as a "success penalty," citing the need to sign 50 smaller firms to compensate for the loss of emerging middle market customers.

About Insperity

Insperity, Inc, founded in 1986 and headquartered in Kingwood, Texas is a publicly traded (NYSE: NSP), professional employer organization (PEO) which provides human capital management technology and administration HR services to small and midsized business. Insperity supports more than 326K worksite employees across the United States through its network of more than 90 locations, consistently placing it in the top five largest PEO's in America.

What It Means for Insperity

Insperity's and Workday's customer bases, markets, and offerings neatly complement each other. Workday's technology is sophisticated and expensive, offering powerful but often unaffordable features to small businesses. Insperity's services and support are tailored to small companies that need assistance with HR compliance and strategy on a more intimate level.

Already at the top of the PEO food chain, this strategic move by Insperity instantly differentiates them from their peers, which will pay dividends in the short term from an SMB lead generation perspective, which they expect to reciprocate with Workday for middle market firms seeking advanced HCM technology.

In the long term, Insperity is investing $150 million to prepare itself and fuel the partnership over the five years of exclusivity. For this to work for both sides, Insperity faces the tall task of becoming the premier SMB Workday deployment and back-office operations provider. Without the economy of scale for selling, rapidly deploying, and proficiently operating on Workday, the cost-competitive nature of their solution becomes at risk.

Insperity must transform rapidly and evolve around Workday's technology; this will require significant change management up and down the value chain, requiring careful navigation, close collaboration, deep integration, and strong execution.

However, once live, and if performing to Insperity's historically strong CX standard, this solution becomes possibly the most powerful available for the SMB buyer. For Insperity, assuming it can transform into a power reseller and deployment leader for Workday in the SMB space, the sky is the limit on platform adoption and the ability to compete head-to-head with the biggest names in SMB HR technology and services.

It will extend Insperity's stickiness with growth-oriented customers and pull the service organization further into the middle market. Once fully operational, Insperity has an opportunity to expand its service per employee per month, or PEPMs, due to the premium potential from this differentiated and enhanced solution and ROI potential for customers.

What It Means for Workday

For Workday, this move is highly impactful and instantly positions it well amongst its competitors in meeting the HCM technology demands of the massive SMB marketplace. With few, if any, down-market HCM technology vendors able to match its enterprise-grade HCM maturity, Workday instantly becomes the 500-pound HCM technology gorilla in the SMB room, and Insperity will open a gateway to a large captive channel of new adopters.

Essential to the success of this partnership and go-to-market (GTM) for Workday will be helping Insperity ramp up its Workday practice and proficiency and transform its operations around the Workday platform - something Workday has deep experience in, helping some of the largest enterprises achieve transformation success. Not to mention the depth of expertise in helping its deployment partners develop robust businesses around the Workday apps and ecosystem.

What It Means for The Marketplace

The outcome of this strategic GTM will depend highly on the two firms' ability to align and work in lockstep and integrate their organizations around this solution and market segment.

Both companies are savvy and experienced in their lanes, and Workday's partnership and scaling globally with other vendors through strategic GTMs will also help to guide the way. On the other hand, Insperity has the brand trust, respect, and expertise in the SMB marketplace, which, combined with Workday technology, will make it a formidable competitor against other solutions.

This will challenge competing PEOs whose technology pales in capability, maturity, or investment. It also pressures any HCM technology vendor pursuing maturing SMBs and emerging middle-market firms. We're likely to see some counter-maneuvering by competitors, including possibly an acquisition, but more likely similar strategic partnerships.

Remember, as impactful as PEOs are for small business owners, they aren't for every organization. Nor is outsourcing HR and payroll. In the longer term, expect to see Workday and Insperity offer a SaaS play where smaller middle-market firms can tap into a preconfigured instance of Workday without fully outsourcing or pair it with partial HR and payroll point solutions. Insperity also has longer-term opportunities to expand its managed services around Workday's other apps, including finance, where Workday seeks to grow adoption by almost any growing middle market firm.

Overall, this is a bold and differentiated move for Workday and Insperity, pairing two highly respected brands for a powerful one-two punch of technology and compliance services. Each will benefit over the long term and see expanded revenue opportunities. It will also pressure a marketplace that lacks a dominant leader and set a new standard for the modern SMB HR operating model.



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Pete leverages unique market expertise from over 30 years in HR and payroll technology, services, and transformation. His experience includes roles in Fortune 100 payroll leadership, HRO pre-sales and solution design, 'Big-4' consulting, and Director of HR Technology and Services Research for leading analyst firms.

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