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Disruptive Technology (Part Two)

This is the second time that I have written about “Disruptive Technology”. The theme of my first paper was that I was appalled by the tone of some concept devotees, and actually taken aback by their view of the philosophy. The philosophy was first espoused by a professor at a well-known B school on the East Coast as an attention grabbing phrase to describe how technology was changing entire business sectors; changing them quickly, profoundly, and completely. Fair enough. Yet, some concept devotees were taking the philosophy in another direction. They were using the speed, knowledge, and capital required to evolve in the new normal environment as a chance for companies and investors to return to the days of **predatory mercantilism** where the size of the pie was defined and the winner in the pie fight won only by taking pie from other players; that was a world of trade wars, hot wars, and slow to no growth. Not a world of innovation, wealth creation, and democracy.

Let’s look at how “Disruptive Technology” is affecting the payroll and human resource management industry, and suggest elements an owner and manager of a business in that market needs to think about and plan for. I want to look quickly at **three elements in “Disruptive Technology” that can directly influence corporate strategy**: some components of new technology, new competitors and their priorities, and elements of risk management which range from mandatory to very important considerations.

The new technology is exciting, enabling, changing quickly, and being created in a “wild-west” environment. Owners and managers need to determine winners and losers (software, hardware, conductivity, speed, control, support). Each element has advantages and complexities. New servers are fast. They can support thin clients, web clients, multi-tenant... They are less expensive than ever, but require IT talent which is a fairly scarce resource. Servers can be used as pathways to common or private clouds. Clouds offer speed, flexibility, storage, access, support... They also pose questions of privacy, security, business interruption, loss of direct control... The change in this infrastructure is certainly changing software and the approach to writing, changing, and controlling the software environment. It changes the approach needed to provide customized services to a small number of clients. The wide spread use of saas technology and its acceptance by users and vendors and investor is a prime example. The technology can scale, can be changed instantly system-wide, can be implemented and supported remotely. It can facilitate system combinations which are fundamentally changing how manufacturing, retail, scientific discovery, and business services will be conducted today and in the future. **In a controlled environment, these elements are game changers. In an uncontrolled environment they pose company destroying risks both within and outside the company.**

The new technology is creating new competitors for payroll companies. These competitors value a payroll company’s key data and their access to local, national, and international payment systems. New competitors include firms within the payroll business. They may be old rivals who are expanding their service offerings. They may be new players who could be rivals or allies, depending upon a company’s strategy, from industries like human resource management, benefits

services (retirement, savings plans, investment plans). Each of these players provides employer services which need employer and employee data. Many of them can use access to the payment system. For several, the payroll company should plan on / insist on being the system of record. Yet, to provide a comprehensive human resource management system, the system of record should be the HR system. The payroll company will need to change its strategy from being the system control point, to working with a trusted but outside provider for a fundamental element of the operations.

The new technology requires the payroll service company to implement and manage a complete and robust risk management strategy. Screening and managing technology partners is mandatory. Understanding the change management systems, and the control of elements from concept to development to testing to implementation to support, is mandatory. System security, client data security, client and client employee/user access security, partner system security, and the company's own security needs to be a top priority with all the players, or none are secure enough to survive in the new world.

If the complexity of these opportunities and threats are compelling to the owners and managers of service providers, imagine how it strikes most of their customers. They outsourced payroll and HR services to increase their efficiency, hire experts in sensitive and regulated services, increase the accuracy of the work product, and reduce the overall costs of managing their employees. They did not want to have to worry about service provider's security or the status of the members in the "alliance" providing them with services. They want knowledgeable and timely customer service. Most are willing to pay a very fair price for that service. They will leave providers who can't master the complexities themselves.

"Disruptive Technology" is a fact. It will change payroll and human resource management quickly, profoundly, and completely. It will require new resources and more capital, that is why service providers are seeing mergers, acquisitions, and IPO's. In the last couple of years, the market has again seen a pie fight and momentum only based valuation in this industry. The bloom of outsized valuations will come off the rose. Investors will require positive cash flows, predictable earnings, far more attention to security, and capable management. In the dot.com crash of the late 1990's the pie fighters spent the first round of the fight buying market share by discounting prices and in some cases, delivering poor service. Many failed. Some survived but saw their share prices drop 75% and stay there for years. Some thrived and created new industries. The best of those who survived created strategies which allowed them to embrace change, anticipate new markets and customer requirements, attract capital (both human and monetary), picked their markets and their partners very carefully. And, they changed the world.

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