Insights on HCM software in SEA

Primer

August 2024

Disclaimer

This document is to provide information and is for illustration purposes only. Accordingly, it must be considered in the context and purpose for which it has been prepared and be kept confidential.

It cannot be relied upon by any recipient. In accepting this document, you agree that L.E.K. Consulting Australia Pty Ltd and its affiliates, members, directors, officers, employees and agents (collectively "L.E.K.") neither owe nor accept any duty or responsibility or liability to you or any third party, whether in contract, tort (including negligence) or breach of statutory duty or otherwise, howsoever arising, in connection with or arising from this presentation or the use you or any third party make of it.

L.E.K. shall not be liable to you or any third party in respect of any loss, damage or expense of whatsoever nature which is caused by your or any third party's reliance or for any use you or any third party may choose to make of the presentation, which you accept is at your or their own risk.

This presentation is based on information available at the time this presentation was prepared and on certain assumptions, including, but not limited to, assumptions regarding future events, developments and uncertainties, and contains "forward-looking statements" (statements that may include, without limitation, statements about projected market opportunities, strategies, competition, expected activities and expenditures, and at times may be identified by the use of words such as "may", "could", "should", "would", "project", "believe", "anticipate", "expect", "plan", "estimate", "forecast", "potential", "intend", "continue" and variations of these words or comparable words).

L.E.K. is not able to predict future events, developments and uncertainties. Consequently, any of the forward-looking statements contained in this presentation may prove to be incorrect or incomplete, and actual results could differ materially from those projected or estimated in this presentation. L.E.K. undertakes no obligation to update any forward-looking statements for revisions or changes after the date of this presentation, and L.E.K. makes no representation or warranty that any of the projections or estimates in this presentation will be realized. Nothing contained herein is, or should be relied upon as, a promise or representation as to the future.

L E K™

Executive Summary

1 The Human Capital Management (HCM) market in Southeast Asia (SEA) is nascent, with adoption varying across categories. However, organisations are looking to increase adoption, presenting growth opportunities for HCM vendors

2 Regional and local players lead due to local expertise, while global platforms and a long tail of providers follow. Customers, especially smaller organisations, prefer full-suite solutions

3 High costs, integration difficulties, unmet needs, and instability are common challenges. Addressing these can give HCM vendors a competitive edge

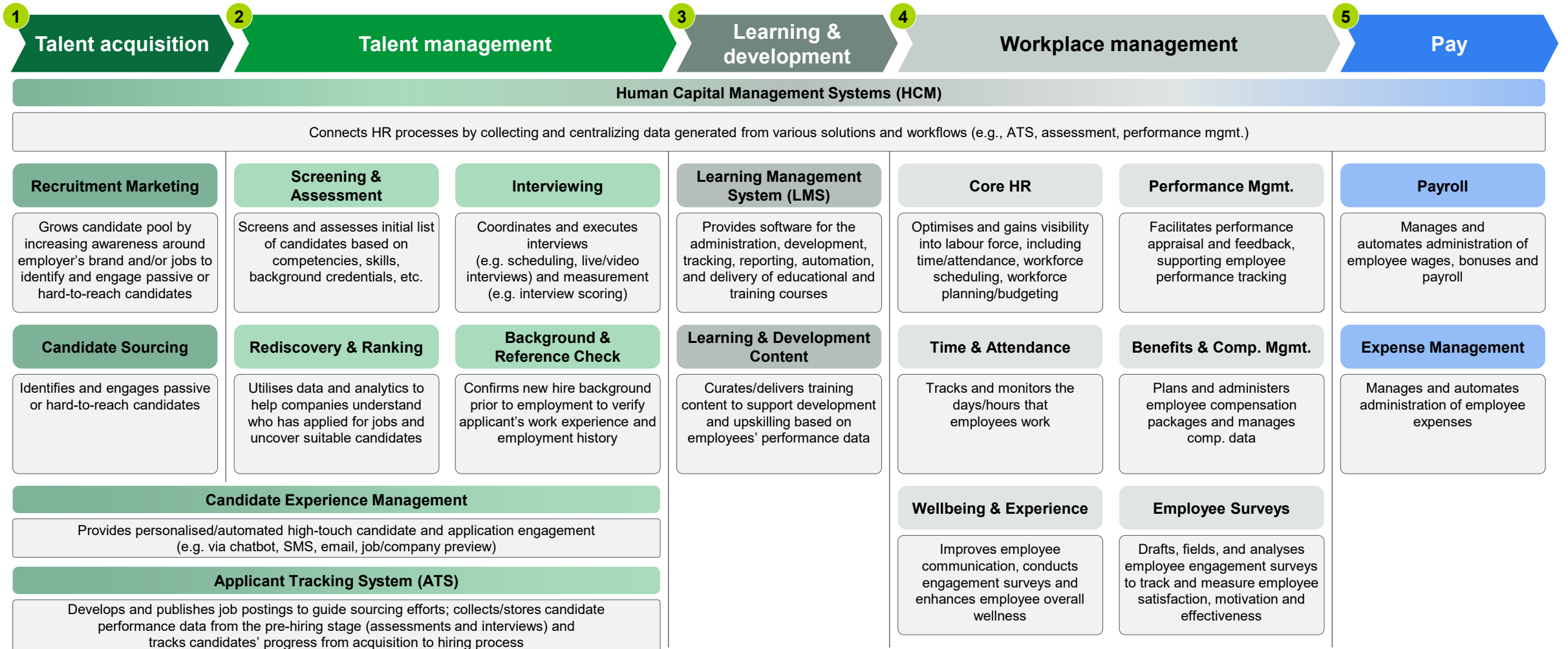**4** The fragmented landscape presents consolidation opportunities through strategic investments. HCM vendors expand in SEA primarily by acquiring payroll businesses, making them attractive M&A targets for investors

5 HCM adoption in SEA is expected to increase over the next three to five years, driven by employee experience, digitisation, Artificial Intelligence (AI), and the need for local vendors

LE K™

HCM solutions address a variety of specific use cases across five core modules

| **1** Talent acquisition | **2** Talent management | | **3** Learning & development | **4** Workplace management | | **5** Pay |

Human Capital Management Systems (HCM)

Connects HR processes by collecting and centralizing data generated from various solutions and workflows (e.g., ATS, assessment, performance mgmt.)

Recruitment Marketing	**Screening & Assessment**	**Interviewing**	**Learning Management System (LMS)**	**Core HR**	**Performance Mgmt.**	**Payroll**
Grows candidate pool by increasing awareness around employer's brand and/or jobs to identify and engage passive or hard-to-reach candidates	Screens and assesses initial list of candidates based on competencies, skills, background credentials, etc.	Coordinates and executes interviews (e.g. scheduling, live/video interviews) and measurement (e.g. interview scoring)	Provides software for the administration, development, tracking, reporting, automation, and delivery of educational and training courses	Optimises and gains visibility into labour force, including time/attendance, workforce scheduling, workforce planning/budgeting	Facilitates performance appraisal and feedback, supporting employee performance tracking	Manages and automates administration of employee wages, bonuses and payroll

Candidate Sourcing	**Rediscovery & Ranking**	**Background & Reference Check**	**Learning & Development Content**	**Time & Attendance**	**Benefits & Comp. Mgmt.**	**Expense Management**
Identifies and engages passive or hard-to-reach candidates	Utilises data and analytics to help companies understand who has applied for jobs and uncover suitable candidates	Confirms new hire background prior to employment to verify applicant's work experience and employment history	Curates/delivers training content to support development and upskilling based on employees' performance data	Tracks and monitors the days/hours that employees work	Plans and administers employee compensation packages and manages comp. data	Manages and automates administration of employee expenses

				Wellbeing & Experience	**Employee Surveys**	
				Improves employee communication, conducts engagement surveys and enhances employee overall wellness	Drafts, fields, and analyses employee engagement surveys to track and measure employee satisfaction, motivation and effectiveness	

Candidate Experience Management

Provides personalised/automated high-touch candidate and application engagement (e.g. via chatbot, SMS, email, job/company preview)

Applicant Tracking System (ATS)

Develops and publishes job postings to guide sourcing efforts; collects/stores candidate performance data from the pre-hiring stage (assessments and interviews) and tracks candidates' progress from acquisition to hiring process

LEK™

Several key trends are expected to drive spend and adoption of HR software across SEA

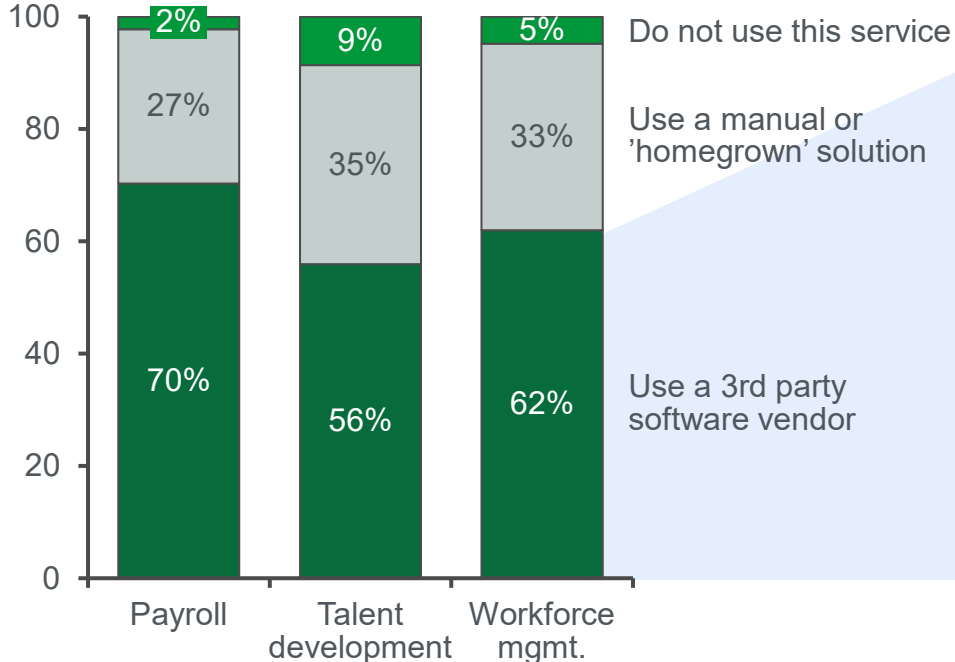| Key trends		Details	Expected trend's impact
1	**Demand for greater employee engagement**	Most SEA markets reported employee engagement levels below the APAC average, prompting organisations to invest in HR software to enhance employee engagement	
2	**Generative AI enhancing HR software**	Organisations are expected to utilise generative AI to enhance the efficiency of highly repetitive manual tasks, such as candidate application screening (e.g. offering preliminary candidate assessments), while simultaneously augmenting more creative tasks such as job post creation	
3	**Cloud-based HR software-as-a-Service**	Cloud enhances HR software adoption by providing scalable and accessible solutions, enabling cost-effective usage and allowing for seamless software implementation and updates	
4	**Demand for localised software**	Localisation efforts will ensure compliance of HR software with the specific cultural and regulatory needs of SEA markets, particularly those with extensive native language requirements	

← Negative ——————— Positive →

LEK™
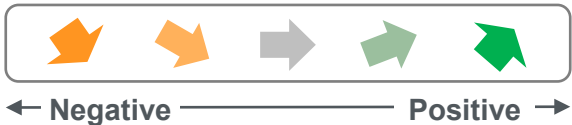
HCM software has moderate adoption in the SEA market; significant white space exists for broader adoption, especially in segments with <100 FTEs

Utilisation of HCM software solutions, by function (2024)
Percent of respondents (N=313)

- 2% / 9% / 5% — Do not use this service
- 27% / 35% / 33% — Use a manual or 'homegrown' solution
- 70% / 56% / 62% — Use a 3rd party software vendor

Categories: Payroll, Talent development, Workforce mgmt.

Utilisation of workforce management software, by customer size and geography (2024)
Percent of respondents (N=313)

By customer size:
- 50-99 FTEs: 66%
- 100-999 FTEs: 83%
- 1,000+ FTEs: 92%

By geography:
- Singapore: 81%
- Malaysia: 80%
- Indonesia: 93%
- Thailand: 87%
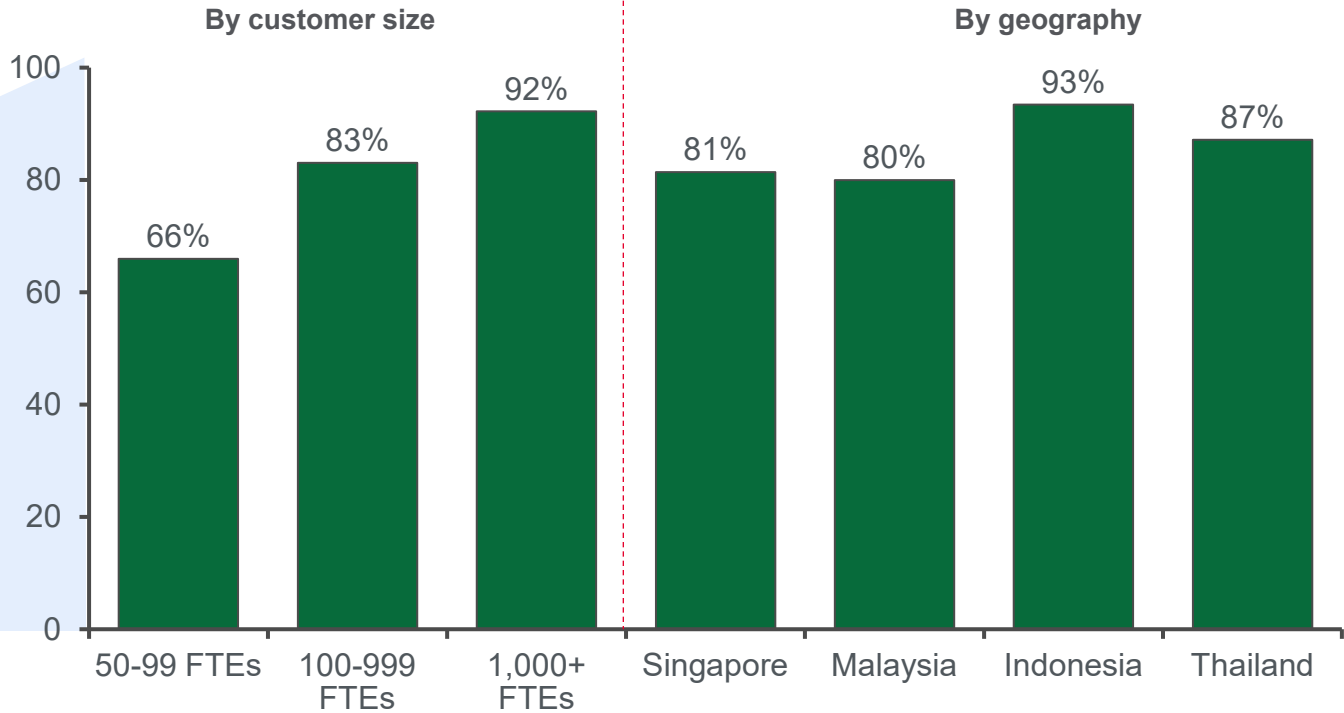
Survey question: Which of the following best describes your company's utilisation of human capital management software solutions for each of the functions below? (Select one option per row)
Source: L.E.K. HCM customer survey, research and analysis

LEK™

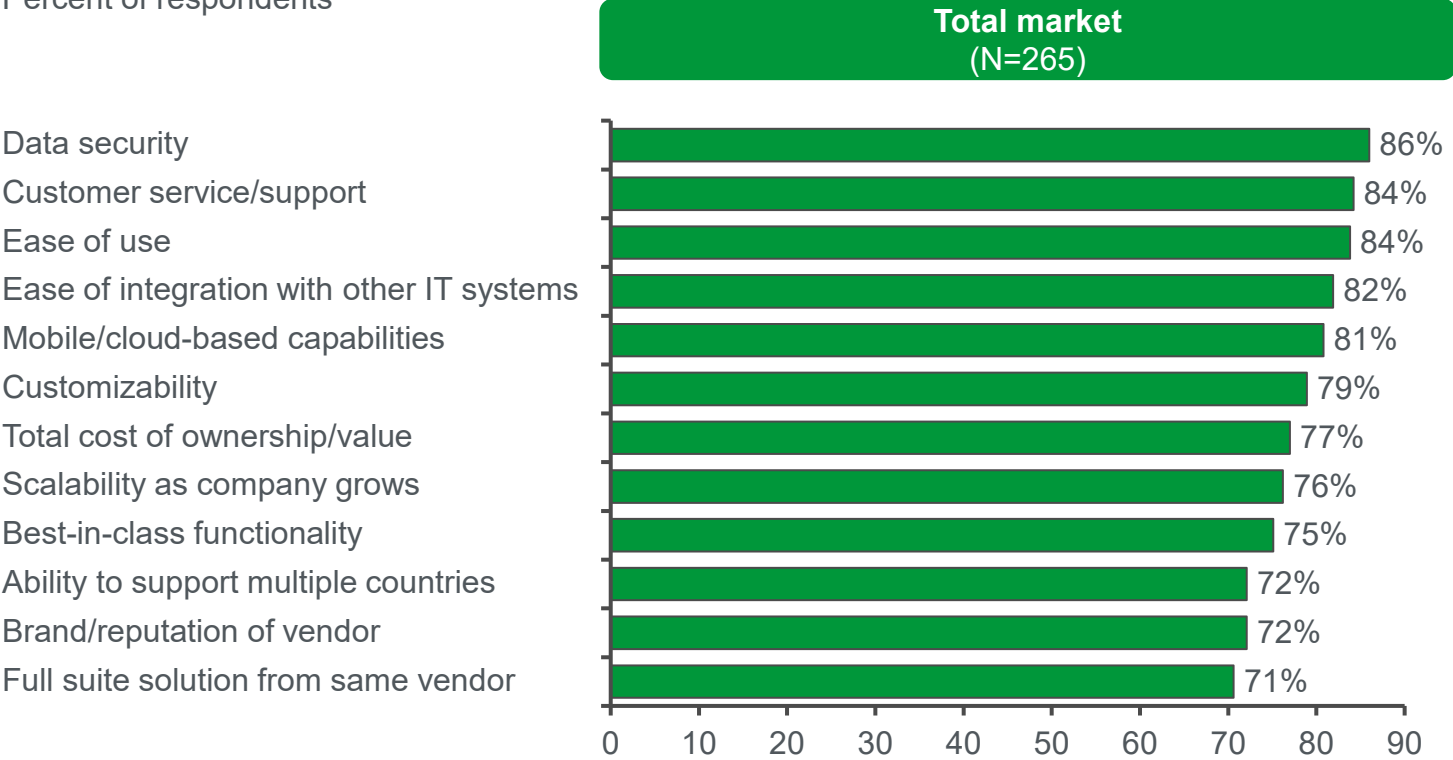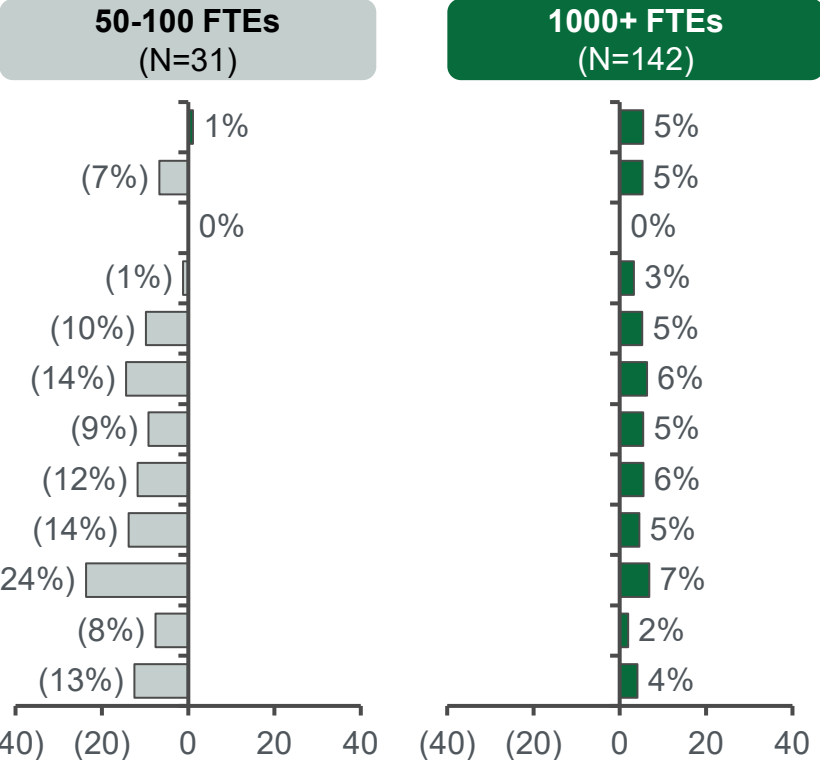# Ease of use, data security and customer service are key table stakes across all customer segments, with smaller customers (<100 FTEs) placing the least emphasis on scalability

Key purchasing criteria for organisations purchasing third-party HCM software solutions* (2024)
Percent of respondents

Key purchasing criteria by customer size relative to the total market

	Total market (N=265)	50-100 FTEs (N=31)	1000+ FTEs (N=142)
Data security	86%	1%	5%
Customer service/support	84%	(7%)	5%
Ease of use	84%	0%	0%
Ease of integration with other IT systems	82%	(1%)	3%
Mobile/cloud-based capabilities	81%	(10%)	5%
Customizability	79%	(14%)	6%
Total cost of ownership/value	77%	(9%)	5%
Scalability as company grows	76%	(12%)	6%
Best-in-class functionality	75%	(14%)	5%
Ability to support multiple countries	72%	(24%)	7%
Brand/reputation of vendor	72%	(8%)	2%
Full suite solution from same vendor	71%	(13%)	4%

Question: When purchasing 3rd party human capital management software solutions, what are the most important criteria when your organization is selecting vendors? Please rate each criteria on a scale of 1 to 7 where '1' means "not at all important" and '7' means "very important."
Note: * Percentage of respondents who ranked the following purchasing criteria as 6 or 7 out of 7
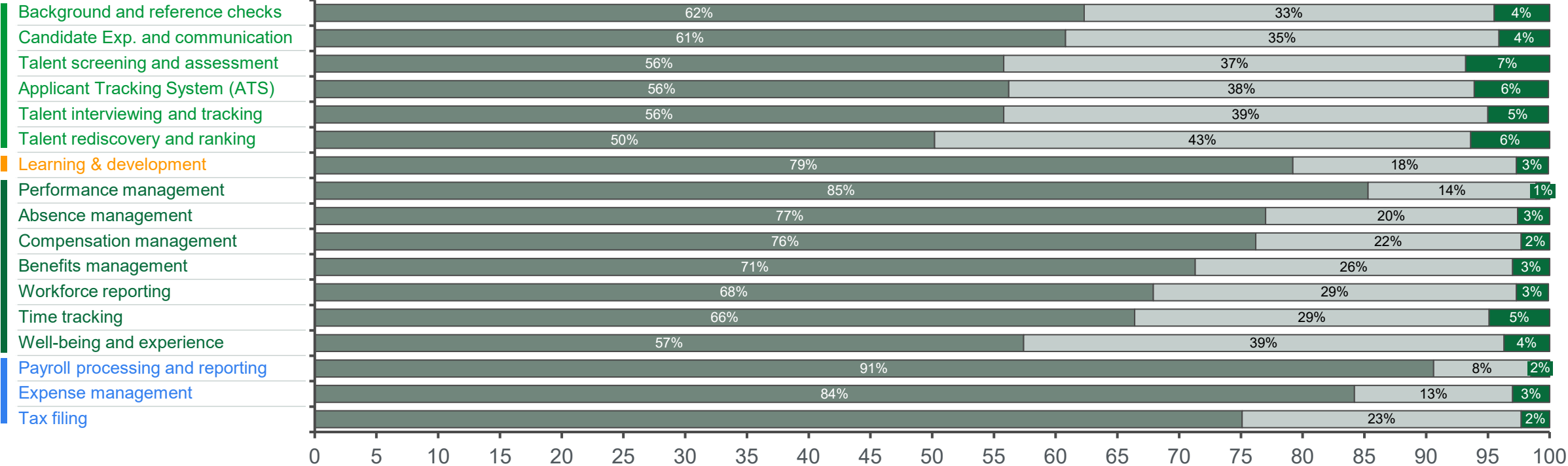Source: L.E.K. HCM customer survey, research and analysis

L E K™

Organisations currently using HCM represent a significant opportunity for software vendors, as they plan to expand their adoption of HCM features over the next three to five years

Current and planned usage of HCM software features (current users) (2024)
Percent of respondents (N=265)

Current average adoption rate across HCM features is 61%, with >95% of companies anticipated to adopt over the next 3 years

Legend: ☐ Currently utilise ☐ Do not utilise, but expect to within 3Y ☐ Do not utilise and do not expect to

Feature	Currently utilise	Do not utilise, but expect to within 3Y	Do not utilise and do not expect to
Background and reference checks	62%	33%	4%
Candidate Exp. and communication	61%	35%	4%
Talent screening and assessment	56%	37%	7%
Applicant Tracking System (ATS)	56%	38%	6%
Talent interviewing and tracking	56%	39%	5%
Talent rediscovery and ranking	50%	43%	6%
Learning & development	79%	18%	3%
Performance management	85%	14%	1%
Absence management	77%	20%	3%
Compensation management	76%	22%	2%
Benefits management	71%	26%	3%
Workforce reporting	68%	29%	3%
Time tracking	66%	29%	5%
Well-being and experience	57%	39%	4%
Payroll processing and reporting	91%	8%	2%
Expense management	84%	13%	3%
Tax filing		23%	2%

Legend: ■ Talent Management ■ Learning and development ■ Workplace management ■ Pay

LEK™

Likelihood of adopting third-party HCM solutions is significant for non-users, particularly within larger enterprises (1k+ FTEs); payroll and compensation mgmt. remain the top HCM features of interest
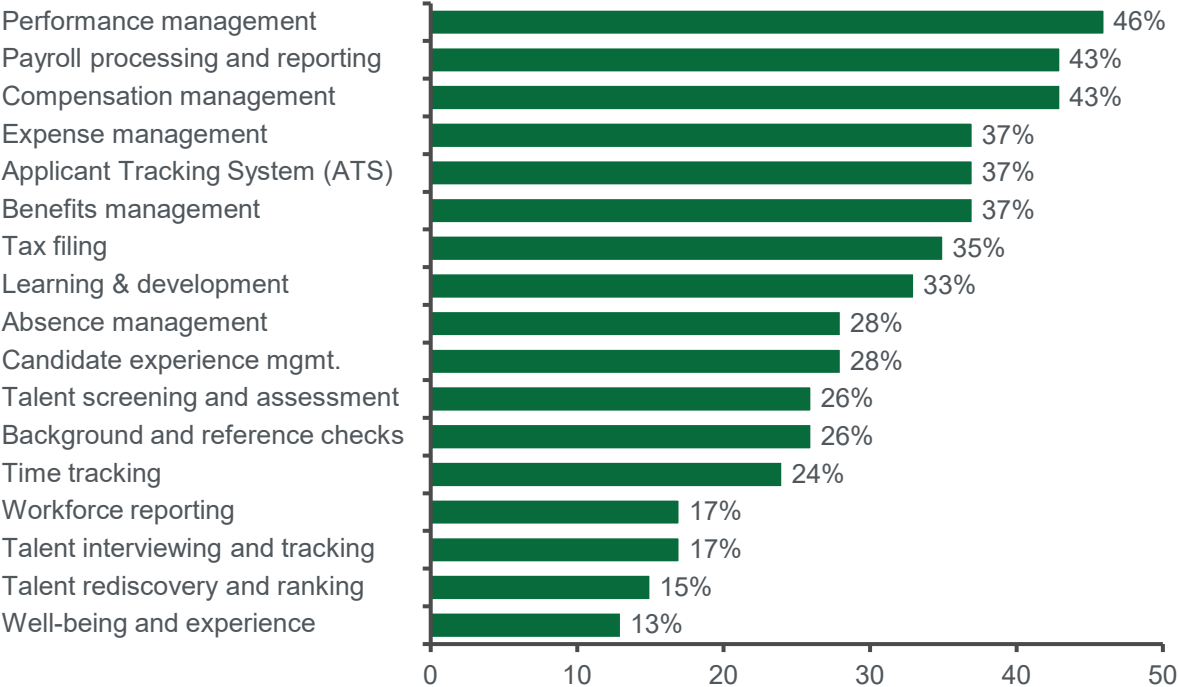
Likelihood of adopting a third-party HCM solution in the next three years, for non-users*
(2024-2027)
Percent of respondents (N=46)

Legend: Payroll | Workforce management | Talent development

FTEs	Payroll	Workforce management	Talent development
50-100 FTEs	60%	64%	50%
100-999 FTEs	61%	74%	73%
1,000+ FTEs	73%	79%	85%
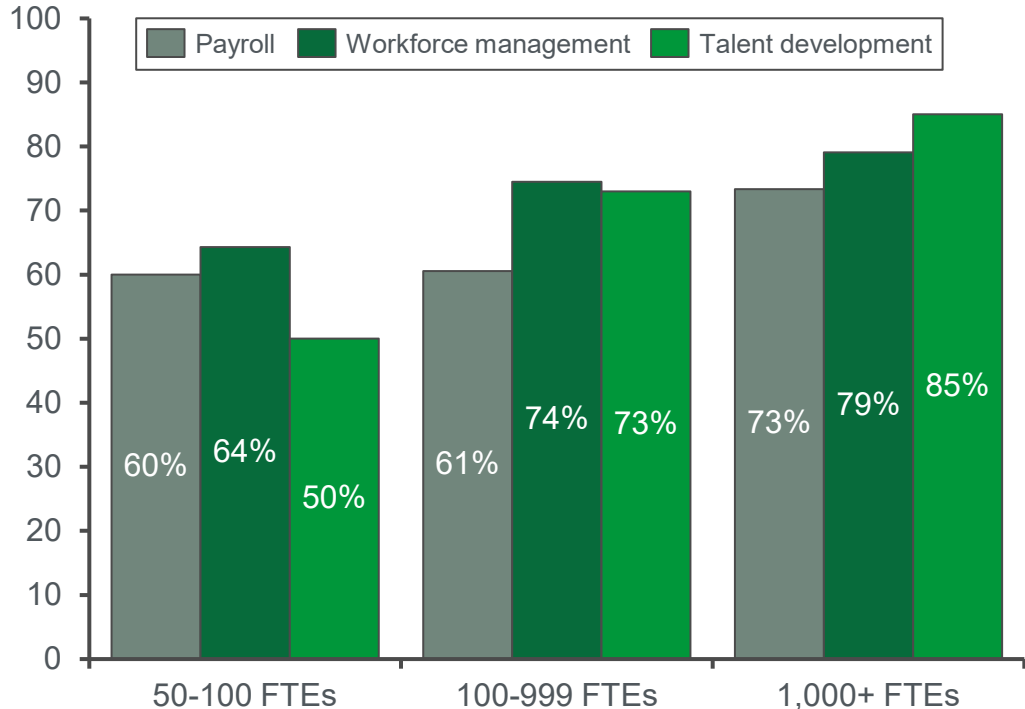
Top HCM features of interest, for non-users^
(2024)
Percent of respondents (N=46)

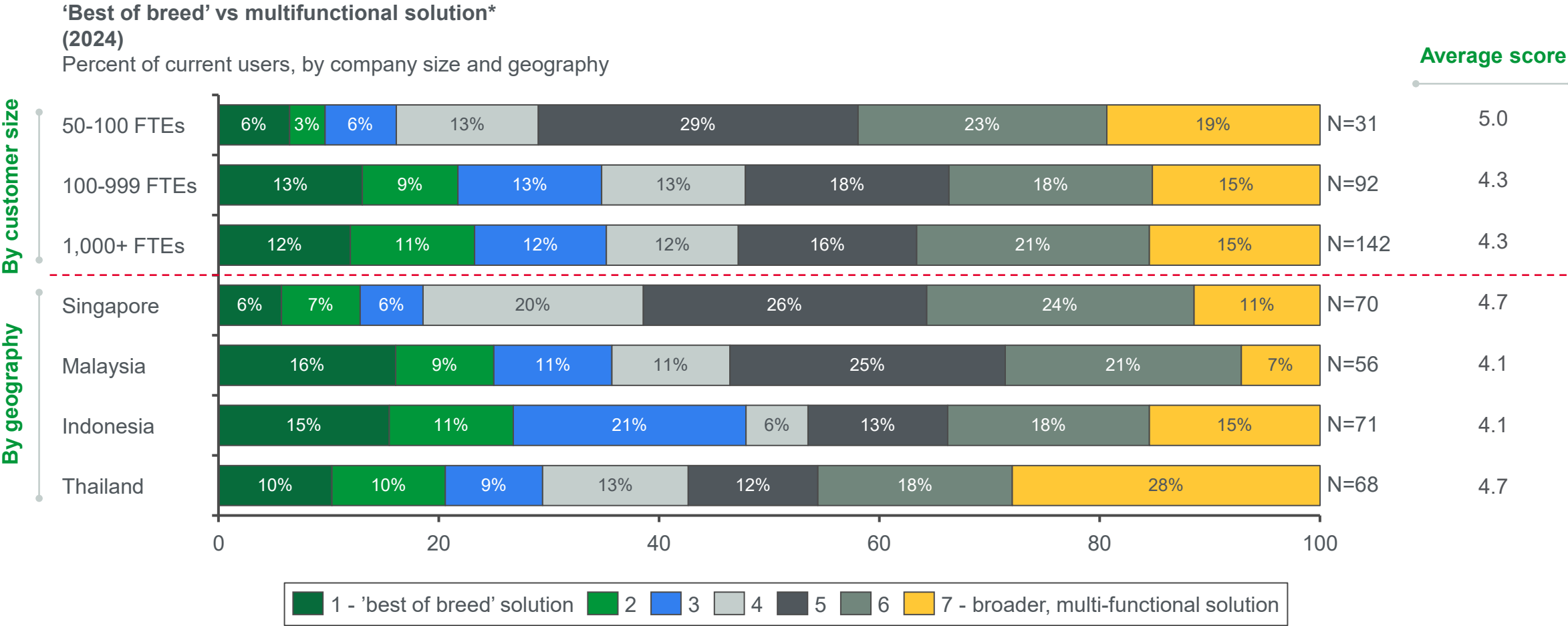| Feature	Percent
Performance management	46%
Payroll processing and reporting	43%
Compensation management	43%
Expense management	37%
Applicant Tracking System (ATS)	37%
Benefits management	37%
Tax filing	35%
Learning & development	33%
Absence management	28%
Candidate experience mgmt.	28%
Talent screening and assessment	26%
Background and reference checks	26%
Time tracking	24%
Workforce reporting	17%
Talent interviewing and tracking	17%
Talent rediscovery and ranking	15%
Well-being and experience	13%

Question: What is the likelihood that your company will adopt a 3rd party HCM solution for each service in the next 3 years? (Select one for each service). What types of specific services / features would your company be most interested in adopting from a 3rd party HCM vendor? (Select all that apply)
Note: * Question was only shown to participants who are currently not using third party vendors for the following features; ^ Question was only shown to non-users of HCM software solutions
Source: L.E.K. HCM customer survey, research and analysis

LEK™

Broad solutions are generally favoured over specialised point solutions, particularly within smaller organisations

'Best of breed' vs multifunctional solution*
(2024)
Percent of current users, by company size and geography

Average score

By customer size

	1	2	3	4	5	6	7		
50-100 FTEs	6%	3%	6%	13%	29%	23%	19%	N=31	5.0
100-999 FTEs	13%	9%	13%	13%	18%	18%	15%	N=92	4.3
1,000+ FTEs	12%	11%	12%	12%	16%	21%	15%	N=142	4.3

By geography

	1	2	3	4	5	6	7		
Singapore	6%	7%	6%	20%	26%	24%	11%	N=70	4.7
Malaysia	16%	9%	11%	11%	25%	21%	7%	N=56	4.1
Indonesia	15%	11%	21%	6%	13%	18%	15%	N=71	4.1
Thailand	10%	10%	9%	13%	12%	18%	28%	N=68	4.7

Legend: 1 - 'best of breed' solution | 2 | 3 | 4 | 5 | 6 | 7 - broader, multi-functional solution
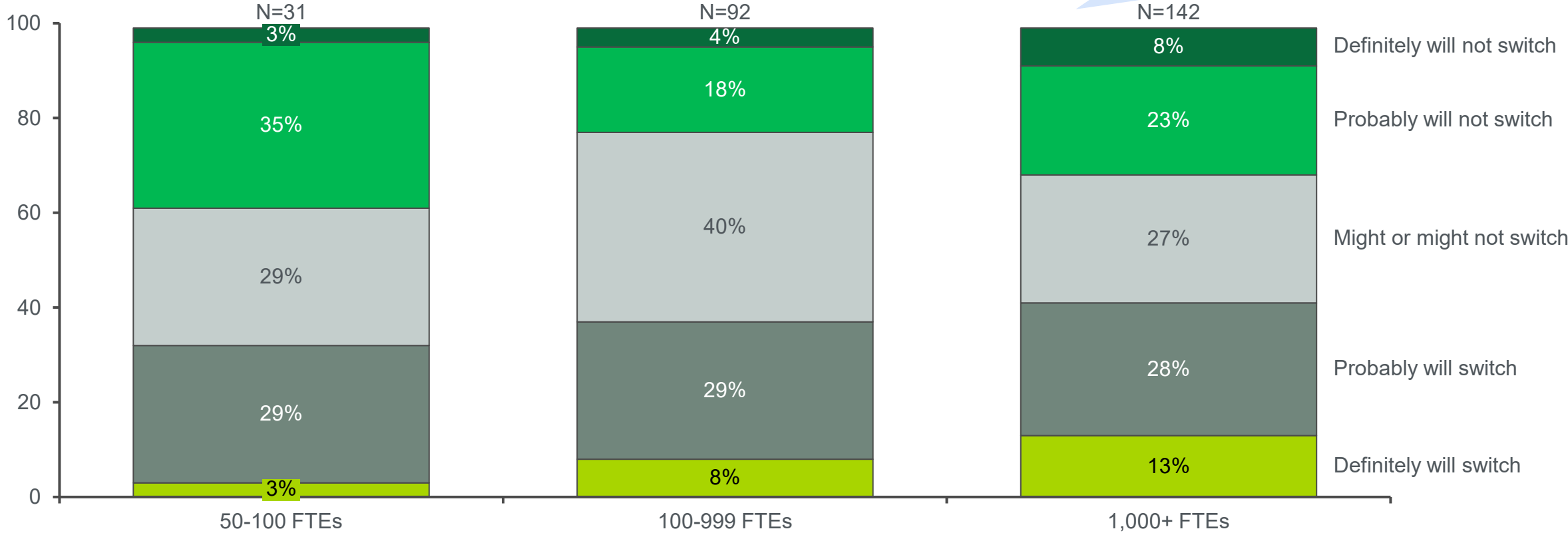
Question: To what degree does your company prefer a 'best of breed' or a 'one-stop-shop' vendor for HCM solutions? Please select one option
Source: L.E.K. HCM customer survey, research and analysis

LEK™

Risk of switching away from current third-party HCM vendors is high (70%-80%), indicating opportunities for vendors to provide additional incentives and address existing customer pain points

Likelihood of switching away from current third-party HCM vendor in the next three years*
(2024-2027)
Percent of respondents

> Opportunity for pan-SEA competitors to gain market share within the enterprise segment given lower levels of customer stickiness

50-100 FTEs (N=31)
- 3% Definitely will switch
- 29% Probably will switch
- 29% Might or might not switch
- 35% Probably will not switch
- 3% Definitely will not switch

100-999 FTEs (N=92)
- 8% Definitely will switch
- 29% Probably will switch
- 40% Might or might not switch
- 18% Probably will not switch
- 4% Definitely will not switch

1,000+ FTEs (N=142)
- 13% Definitely will switch
- 28% Probably will switch
- 27% Might or might not switch
- 23% Probably will not switch
- 8% Definitely will not switch

Legend:
- Definitely will not switch
- Probably will not switch
- Might or might not switch
- Probably will switch
- Definitely will switch

Question: What is the likelihood that your company will switch away from your current third-party human capital management vendor(s) in the next 3 years? Please select one
Source: L.E.K. HCM customer survey, research and analysis

LEK™

In each SEA market, one to two local incumbents hold significant shares, while global players with around 30%-40% market share often collaborate with them; smaller players fill the remaining market space

Typical market share of SEA HR software companies (2024) (INDICATIVE)
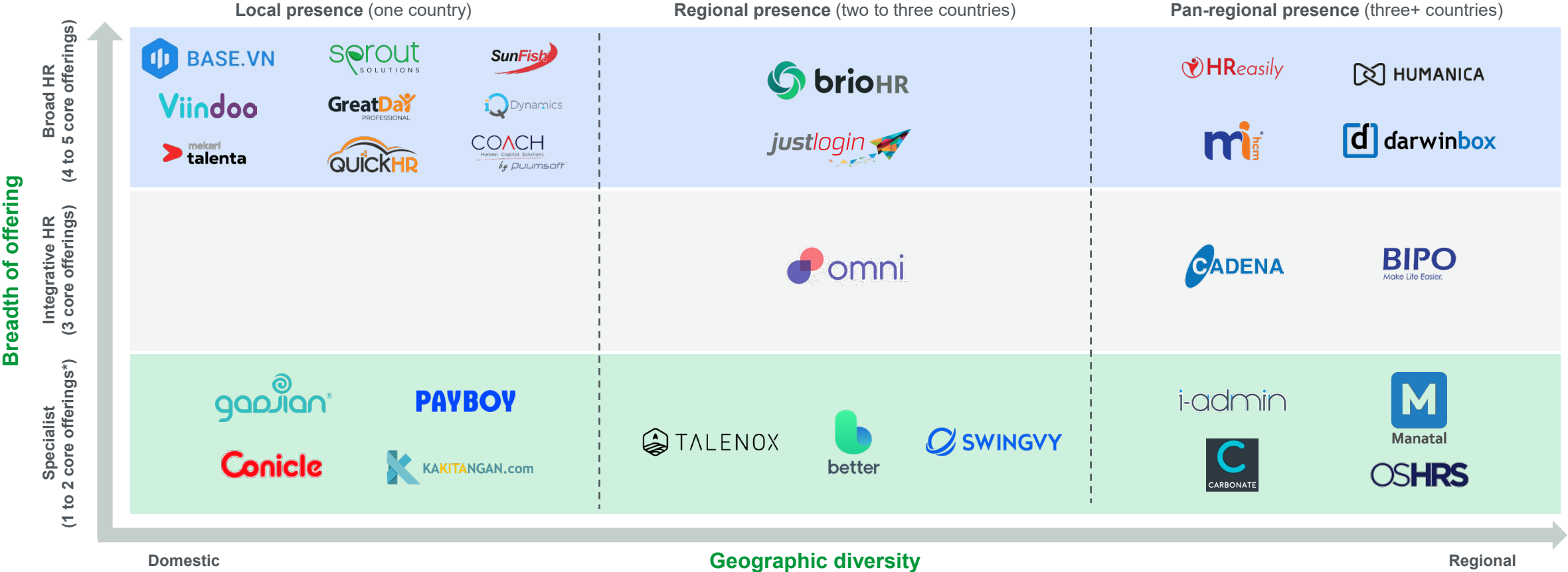Percent

Other point solutions
15-25%

Large foreign player
25-35%

Regional or local
HCM player
40-60%

Generic SEA country

LEK™

The SEA HCM market is fragmented, with companies offering a range of services; local companies typically provide comprehensive HCM services

HR software SMEs competitive landscape

Note: Only companies with >20 FTEs are included in this chart; PayTime and Tembo-Pay are both owned by Cadena; SunFish owns GreatDayHR, while Humanica holds a 49% stake in SunFish; * All companies offer at least 2 core offerings
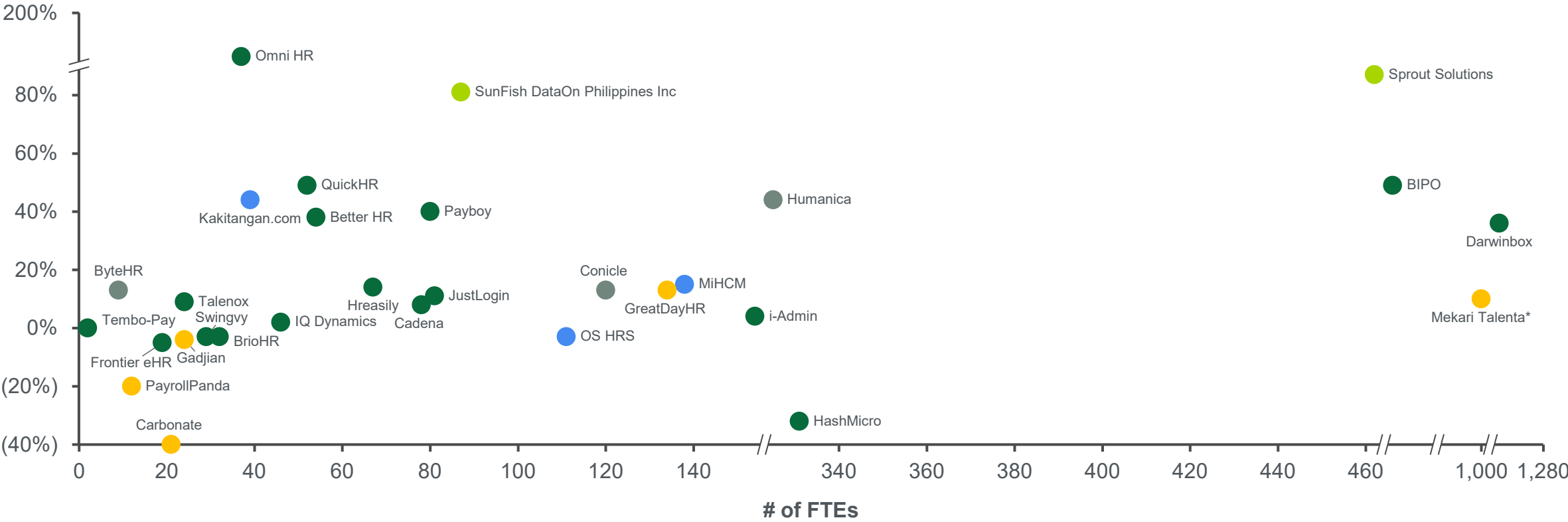
Source: L.E.K. research & analysis

Singaporean HR companies are well represented amongst the competitor set, with most SEA HR software firms having <150 FTEs; talent growth is robust at c.25% growth over the last two years

SEA-based HCM companies FTEs count and growth (2022-24)

Percent / No. of FTEs

Company headquarters: ● Singapore ● Malaysia ● Indonesia ● Thailand ● Philippines

Scatter plot of # of FTEs (x-axis) versus percent growth (y-axis). Companies plotted include: Omni HR, Sprout Solutions, SunFish DataOn Philippines Inc, QuickHR, Kakitangan.com, Better HR, Payboy, BIPO, Humanica, Darwinbox, ByteHR, Conicle, MiHCM, Talenox, JustLogin, Hreasily, GreatDayHR, Cadena, Swingvy, IQ Dynamics, i-Admin, Tembo-Pay, BrioHR, OS HRS, Mekari Talenta*, Frontier eHR, Gadjian, PayrollPanda, Carbonate, HashMicro.
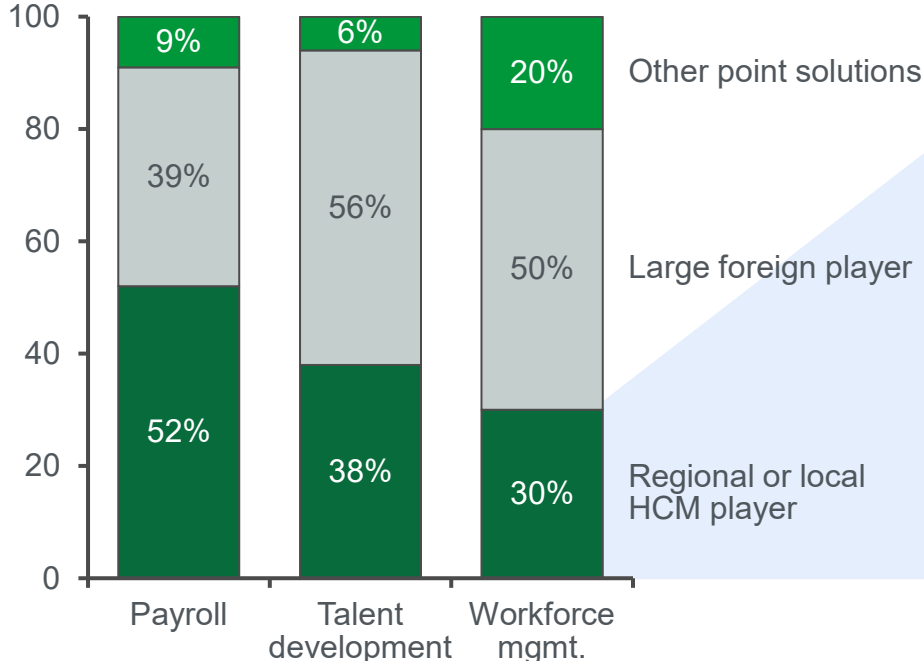
Note: Vietnamese companies are excluded from the chart as a large proportion of their employees are unlikely to be on LinkedIn; * FTE count for Mekari Talenta was sourced from PitchBook
Source: Linkedin; L.E.K. research & analysis

LEK™

Regional or local HCM players are more commonly used for payroll and talent development
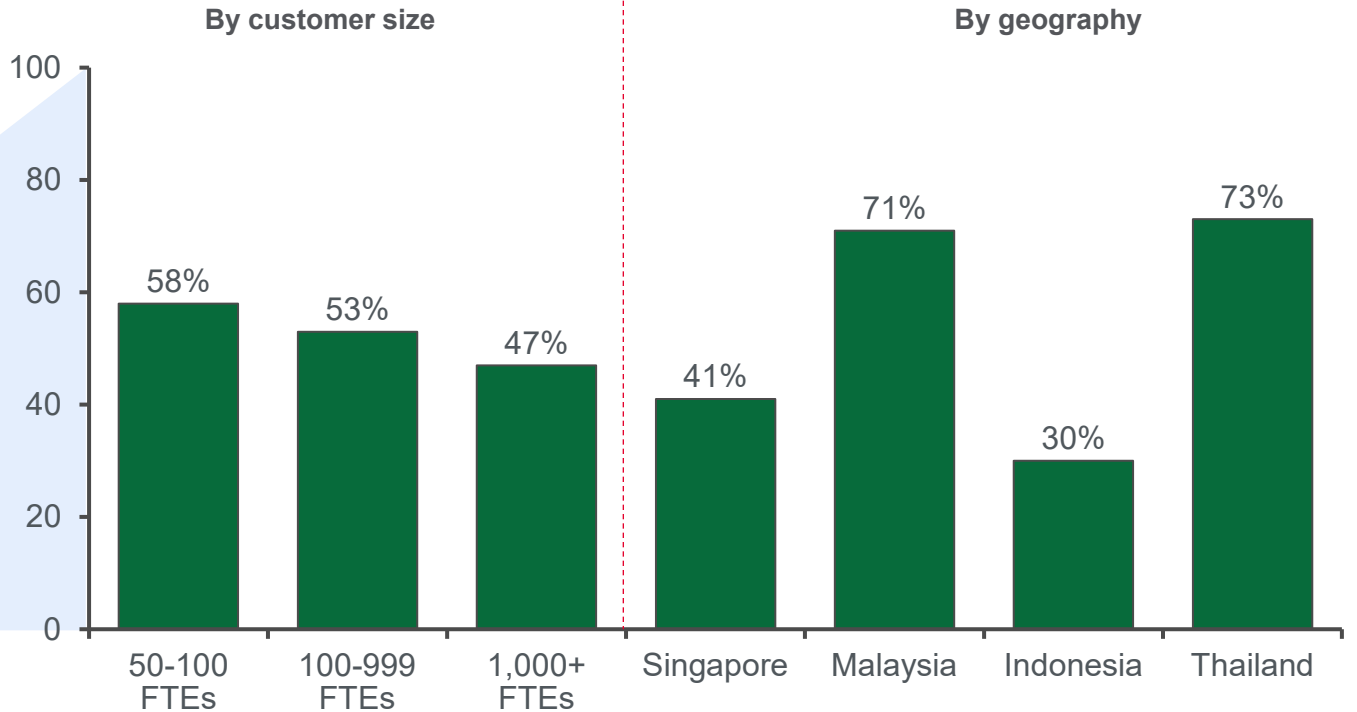
Usage of software vendor within HCM users* (2024)
Percent of respondents (N=138)

- Payroll: Regional or local HCM player 52%, Large foreign player 39%, Other point solutions 9%
- Talent development: Regional or local HCM player 38%, Large foreign player 56%, Other point solutions 6%
- Workforce mgmt.: Regional or local HCM player 30%, Large foreign player 50%, Other point solutions 20%

Usage of regional/local HCM vendors for workplace management, by size and geography (2024)
Percent of respondents (N=138)

By customer size
- 50-100 FTEs: 58%
- 100-999 FTEs: 53%
- 1,000+ FTEs: 47%

By geography
- Singapore: 41%
- Malaysia: 71%
- Indonesia: 30%
- Thailand: 73%

Question: Please indicate which of the following statements best describes the primary type of Human Capital Management (HCM) software vendor(s) that your organization uses for each of the following services. Please select one option
Source: L.E.K. HCM customer survey, research and analysis

LEK™