

## Build or Buy? What to Consider Before You Build a Compensation Management Software

The compensation management process is one of the most complex aspects within the Human Capital Management (HCM) marketplace. Many firms have a similar approach to the way they manage Merit, Bonus, Short/Long Term Incentives, Equity, Deferrals, Carried Interest, and other plans, but all have their own unique way of managing compensation. There always seem to be exceptions that you need to manage, and the systems your firm uses need to afford you the flexibility to accommodate each. Many off-the-shelf HCM solutions do not provide enough flexibility and force you to conform to rigid preset standards. As a result, companies need to decide whether to manage their compensation by building a home-grown system, continuing with Excel and all the associated limitations/risk factors, or consider a web-based (SaaS) best-of-breed solution.

*Compensation is the largest component of an organization's total labor costs, and based on research from Deloitte, it accounts for up to 70% percent of an organization's total costs.*

### Build or Buy?

Companies may consider building for three reasons: (1) they could not identify a reliable, cost-effective system; (2) they feel they can build it less expensively internally; and (3) they assume that a build will ensure that the firm has everything they want and will permit greater flexibility to make changes on the fly that may not come with a pre-built solution. Why consider buying? Working with a proven solution is quicker to implement and can provide your firm with a head start on functionality, training, and support. Buying a point solution also provides your firm access to upgrades, and a roadmap of new features that are built with a unique knowledge of the user base and existing customer needs.

As you weigh your options, there are three key categories to consider: Cost, Control, and Expertise.



#### **COST**

Many believe that you can internally build a system and not have to spend additional money. However, there are often enhancements to be considered, bonus plan design changes, etc. With a build, you do not get regular upgrades that a vendor would roll out, so the build eventually may age out or have to be re-built when the HCM is upgraded and/or replaced.

#### **Other considerations include:**

- **Hard costs:** There are hard costs associated with building your own system related to hardware, databases, software, security, and ongoing maintenance.
- **Internal costs:** Depending on how your organization is structured, there are potential internal costs for chargebacks to HR from other departments (IT, Finance, etc.).
- **Time to value:** Most companies that purchase best-of-breed software realize ROI in a matter of months.
- **Scalability and Longevity:** It's important to factor in long-term budget considerations for upgrades and key IT employee turnover.



## CONTROL

Many buyers feel they can never get everything they want by purchasing a system - or if they need a system that allows them to make changes on the fly, they feel they can make changes faster if it's internally built vs. bought. However, a case can be made that a vendor is likely to be quicker and may be able to offer stronger solutions than internal HRIS.

**When choosing a vendor, it's key to consider the following:**

- Specialized vendors are held to standardized security (Soc2, GDPR) and scalability thresholds.
- Internal systems are purpose built and predicated upon well-defined specs. Internal teams may descope key features to meet time and budget constraints.
- Purchased software scales for growth and flexibility with the ability to quickly adapt to changing needs and exceptions.
- Cloud systems are secure and accessible from anywhere.
- Future enhancements need to be scheduled in-house. Traditionally, internal resources are shared and may not be available due to workload and other conflicting core business-related priorities.
- Compensation software has come a long way and is now more configurable than ever. It is highly flexible and integrates with varying degree with your existing HRIS/HCM, payroll, equity administrators, performance management and other systems.



## EXPERTISE

With the right provider, your firm gains access to years of knowledge gathered from the entire compensation market. It's important to choose a vendor that has experience working with the largest HCM providers and that vendor can be expected to know those systems better than internal resources would.

**Key considerations for choosing a vendor with expertise include:**

- If there is turnover of key personnel in either HRIS or compensation, a vendor provides continuity and preserves institutional knowledge when internal team members change, which supports risk mitigation efforts.
- Your firm can benefit from the power of numbers by leveraging user groups and user communities to learn from your peers who constantly provide insight into future product enhancements.
- Working with a specialized team that has a proven track-record supports your team not only at implementation but throughout its time leveraging the software.
- With a top vendor, their livelihood is predicated on delivering the newest and most needed features, developments, and market best practices, whether your team has identified them yet or not.

## CONCLUSION

What are your firm's core competencies? Will you be able to keep up with requests for enhancements, new features and industry best practices? Is your firm willing to continually invest to maintain software and service it internally? If the answer to any of these is no, then buying a best of breed solution might be the best option.

Typically, building your own software is more expensive, more complicated, harder to maintain, and slower to realize ROI. If you partner with the right compensation automation software provider, you can get everything you want from the product and the peace of mind that it is being developed and maintained by specialists who are intimately knowledgeable of your specific compensation plan design. Additionally, ongoing service and support is a critical factor to consider not only during go-live but post-implementation.

Contact us today to learn more and to see a custom product demonstration: [sales@decusoft.com](mailto:sales@decusoft.com).