



The (near) Future of Applicant Tracking Systems

by J.P. Winker

Applicant Tracking Systems (ATS) have been around for about two decades now. Initially they were all the rage, especially in large companies, but are now available to just about anyone. These products are designed to assist in the hiring process and there are several different software offerings used worldwide, bringing a range of capabilities to various users. While the recruiting industry has adopted these systems en masse, things are about to change. Our purpose is to shed light on the significant changes which are right around the corner.

In order to project where the industry is going, it helps to understand where the industry is now: how the vendors are positioned, different approaches to market, and the disposition of buyers. In doing so we glean insight into the limitations of the assortment of vendors, systems, and the industry itself. As these limitations become clear, we improve our ability to see beyond them.

Current State: Supply Chain

ATSs have been adopted in large numbers. The design of these systems is based on supply chain concepts. Essentially, a supply chain coordinates the design, production, delivery and service of products. Traditional manufacturing companies do one or two of these things then pass the material to the next. Today, manufacturing organizations are intertwined from beginning to end, linked by communication devices. For example, when you buy a widget at Wal-Mart, the moment it's scanned at the cash register, an order for a replacement goes to the stocker, then to the warehouse, then to the supplier, then to the manufacturer. Costs are saved by avoiding capital tied up in inventory. Examples of leading recruiting systems include BrassRing, Taleo and Vurv (formerly RecruitMax). Each of these systems utilizes sequential processing to collect information on, measure, and manage recruiting efforts. As in manufacturing, the software linking recruiting events is centralized in one system on the recruiter's desktop.

A supply chain approach is most effective for companies selling products. It works best for things you can inventory finite, inanimate

objects. When the model is applied to human beings, as in a recruiting process, it is less effective; the complexity and range of human beings makes quantification, management, and predictability extremely difficult. No matter how you look at it, it is not an ideal model on which to base the recruiting of talented people. (Even so, it's a good place to start).

The need to integrate with other systems and services like sourcing and payroll creates further challenges. Technical hurdles are relatively easy to overcome, but forcing unaffiliated vendors to cooperate can be very difficult. Sourcing components in particular, are left out. The result is that many recruiting systems are not implemented across the entire supply chain and instead are comparatively "closed" systems.

In order for the ATS to encompass the entire supply chain, sourcing components need greater inclusion. Because these components (job boards, referral systems, websites, resume dbases, etc.) undergo frequent change, the challenge to include them is one of maintaining (changing) the specs on an ongoing (and reactive) basis. This is particularly painful for software

vendors who see their role more as builders of systems rather than maintainers of them. Including sourcing components is maintenance headache. But the failure to sufficiently integrate sourcing components has left many ATS's more closed than open. Whether sourcing components have been excluded by design or accident, users need to distinguish between them and ensure the sourcing tools are adequately represented. Failure to do so results in the purchase of a very expensive filing cabinet - a closed system

Current State: Vendors

ATS vendors primarily come from the fields of software, supply chain, or media, with varying amounts of recruiting expertise mixed in. When approached from a software background, technology is the driver. Vurv (formerly RecruitMax) founders are technologists. Other vendors, such as Taleo, came out of the supply chain industry. BrassRing is backed by newspaper organizations. In



each case, they have come to where they are through very reasonable activity given their backgrounds and desires to participate in the recruiting industry.

With the advent of ASP technology, the cost of acquiring software has fallen quickly. The ASP model consists of a single system used by many subscribers (who login online). Costs are saved by limiting installation, support, and upgrade expenses. While ASP pricing is attractive, delivery can be dicey. Vendors at the top of the food chain focus on the Global 1000. For these vendors, marketing is about branding, and touting Global 1000 companies as customers builds the ATS brand. These customers, experienced in buying highly customized ERP systems demand customization. ATS vendors, hotly pursuing this customer base, concede to these demands. Inevitably, they support multiple versions of their software at the expense of the business model. Emphasizing marketing over profits, many companies employing this strategy have fallen by the wayside.

Another marketing approach is "selling bells and whistles." This involves side-by-side comparisons of competitor's software. It is common among direct sales marketers and technology-driven vendors. It is hard work and relies on a patient audience. A third approach, taken by ERP vendors (Peoplesoft, Lawson, SAP) is to offer second rate software as an extension of their existing product line. By

offering 80% functionality at a fraction of the cost, it is often a fine deal for the user as well as a profitable sale by the vendor. It is a legitimate, profitable approach to the market and positions the vendor to compete in the long run.

Surprisingly, a vendor's origins do not always correlate with their approach to the market. In other words, technologists do not always rely on bells and whistles, and media companies don't always rely on branding. And given the high cost of branding campaigns, in a highly competitive field of roughly 150 vendors, 2 are profitable. It is a very difficult field to do business in.

Current State: Buyers

Now that we've taken a look at the limits of the supply chain model and a brief overview of the vendor world, it is time to turn our attention to the buyer. Today's buyer is a usually a Human Resources executive, with some assistance from the IT department. Unfortunately, HR professionals are not ideal candidates for making software selections. Lacking adequate training in software, supply chain, or business issues, the HR buyer's ability to discern value-adding software from "neat" software is, at best, limited. Without some background knowledge, it is unrealistic to expect the HR buyer to differentiate what is important for their company from what is simply available.

Given the limitations of the buyer, it is predictable that the likelihood of a successful selection would be comparatively low. And buyer feedback supports this prediction.

Surveys show that few companies are happy with their ATS. There is a "honeymoon" period of about one year before buyer's remorse sets in. The consensus is that the ATS doesn't do what the buyer hoped it would. Additionally, the costs of changing the system and training employees how to use it are unexpectedly high, and reports generated by the systems are inaccurate.

What's Next?

The next big development in the ATS market is the use of the value chain. This is where buyers analyze the recruiting supply chain as a business function (complete with measurement and ROI evaluations). In simple form, a value chain is a supply chain with a value judgment for each event on the flow chart.

Building on the supply chain concept, a value chain follows the same sequence, adding a value judgment at each step. Some events add more value than others and core processes become apparent. By differentiating between high and low value-adds one can prioritize system needs. With this framework comparing how a particular



system meets those needs is relatively easy. A system is only valuable to the degree it meets (your) specific needs.

With a completed value chain sequence, a system is graded on how well it meets high-value events. The system's automated supply chain is compared to the recruiting value chain. Positive matchups are noted as are negative ones. In effect, a mini ROI is being calculated for each event in the sequence. Ideally, a combination of high-value events matched with low cost automation is found. Mathematical equations can be developed where the aggregate ROI measures value gained by automating the larger process. The degree to which a system meets a customer's specific needs can be measured and compared across systems, making the selection a straightforward issue.

Another important benefit is that value deficits can be identified and avoided. These are situations where a change in the event reduces value. An example would be buying a system which forces candidates to submit all resumes through a website. While the system pushes resume submission away from the recruiter seemingly adding value - the attrition rate (candidates abandoning the effort) generally erodes value. With a flow chart, such activity appears reasonable. In a value chain analysis one can see the value deficit and this foolishness can be avoided.

Value Chain Satisfied Customer

Getting the right ATS is a matter of clarifying mission critical needs and matching them with a system that addresses them best at an efficient price point. Despite the fact this is rarely done, it can be done very effectively using a value chain

analysis. Failure to utilize a value chain construct is the reason most companies are not satisfied with their ATS system.

It's difficult to be satisfied with a software purchase without specifying what it is supposed to do, and clearly understand *how* those needs will be met. This is precisely what a value chain model does. It allows one to analyze needs through the supply chain, and pair those needs to value-added services provided by an application.

Given the myriad challenges in the ATS market, the question of change is not 'if,' but 'when.' With HR beginning to learn from other disciplines (supply chain, ROI, measurement, etc), they will begin to understand that the best route to improving selection is the use of a value chain. How quickly this model will penetrate the industry is hard to predict. However, once adopted, buyers will be very clear in describing their needs and select systems which meet them efficiently. Today, technologists and marketers drive development. Using the value chain, buyers will again drive the development of recruiting systems.