

Future of HRTech

From India for the World

Blume Ventures | Fall 2023



HRTech has seen some fundamental changes in the last decade

Expansion of the HR Function

The mandate of the HR Function has expanded and evolved over the years with HR winning a seat at the table and becoming a key strategic partner to C-suite leadership and organizations.

Increase in HRTech Spend

*HRTech spend is growing at a CAGR of 7-8% y-o-y with the global HRTech market size poised to grow from \$24B in 2022 to \$47B by 2030.**

Disruption in Technology

With the influx of AI, VR/AR technologies and capabilities, the HR function is bound to be disrupted by virtual assistants, workflow automation tools, talent upskilling and reskilling.

Changes in Ways of Working

As workplaces adopt hybrid policies, 4-day work weeks, ESG⁽⁶⁾, DEI⁽⁵⁾, workflow automation, and focus on employer branding, several new opportunities arise

Empowering of HR Leaders

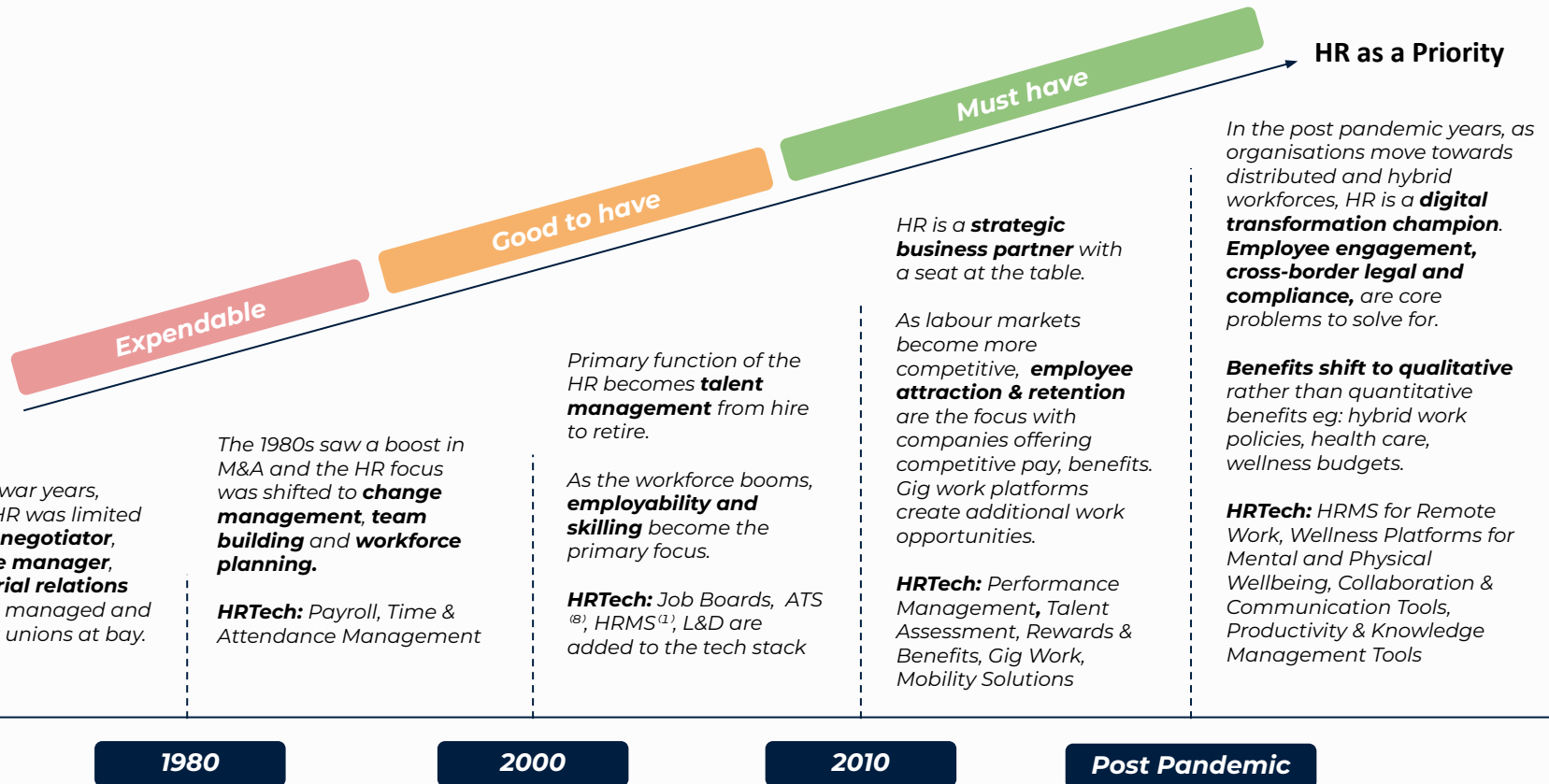
Increasingly, HR is becoming an autonomous function and in most organizations, the CHRO is an empowered decision maker with control over key decisions.

Changing HR Priorities

HR priorities have shifted from people management and hiring to people development, engagement, retention, and welfare.

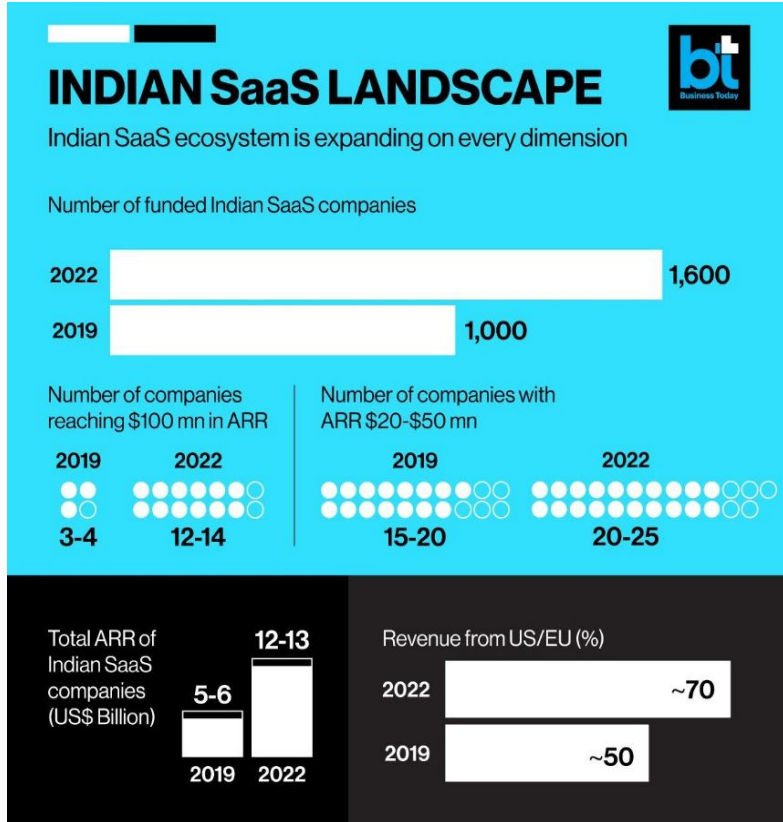
*Source: [Economic Times](#)

The HR function has evolved over the last 4 decades



India-built HRTech startups have become global businesses

India's HRTech B2B SaaS proves its mettle by delivering world class products and global Go-To-Market (GTM) playbooks



Tailwinds for Building in India for the Globe:

i) **Reverse migration** of operators harnessing the country's talented workforce and lower build costs, along with their knowledge of global markets and understanding of customers, have resulted in robust products made in India for the World.

ii) India's global **GTM playbook** is ripe for the taking with Indian SaaS players keeping pace with the growth of US counterparts.

iii) There is a large whitespace and need for **low-cost tools**.














iv) HRTech Tools, in general, make for great cross-border products because (funnily enough) it is essentially **100% software** with limited human intervention.



This is how we visualize the market: Our HRTech Matrix

Employee Lifecycle		
Hiring Process	Tenure	Offboarding
Employer Branding	Knowledge Systems & Productivity Tools	
Talent Planning & Discovery	Admin & Workforce Planning	Exit Management
Assessments	Training & Coaching	
Contracts & Ref Checks	Performance Management, Rewards & Recognition	Alumni Services
Onboarding	Payroll & Finance	
	Benefits + Culture	

Large global and Indian players exist across most sub-spaces

Employee Lifecycle		
Hiring Process	Tenure	Offboarding
Employer Branding 	Knowledge Systems & Productivity Tools 	
Talent Planning & Discovery 	Admin & Workforce Planning 	Exit Management 
Assessments HackerRank 	Training & Coaching 	
Contracts & Ref Checks 	Performance Management, Rewards & Recognition 	Alumni Services 
Onboarding 	Payroll & Finance 	
	Benefits + Culture 	

To narrow down which sub-spaces are investable opportunities, we studied:

- ✓ Total Addressable Market
- ✓ Priority Stack of HRs / CEOs
- ✓ Typical ICP for the Product
- ✓ Available Whitespaces & Wedges



Let's start with TAM

~\$50B

*Estimated Size of the
Global HCM/ HRMS
Market by 2030**

~\$100B

*Estimated Size of
the Online Recruitment
Market by 2030**

~\$100B

*Estimated Employee
Benefits and Wellness
space by 2032**

~\$480B

*Estimated size of the
global Corporate Training
Market by 2030**

~\$150B

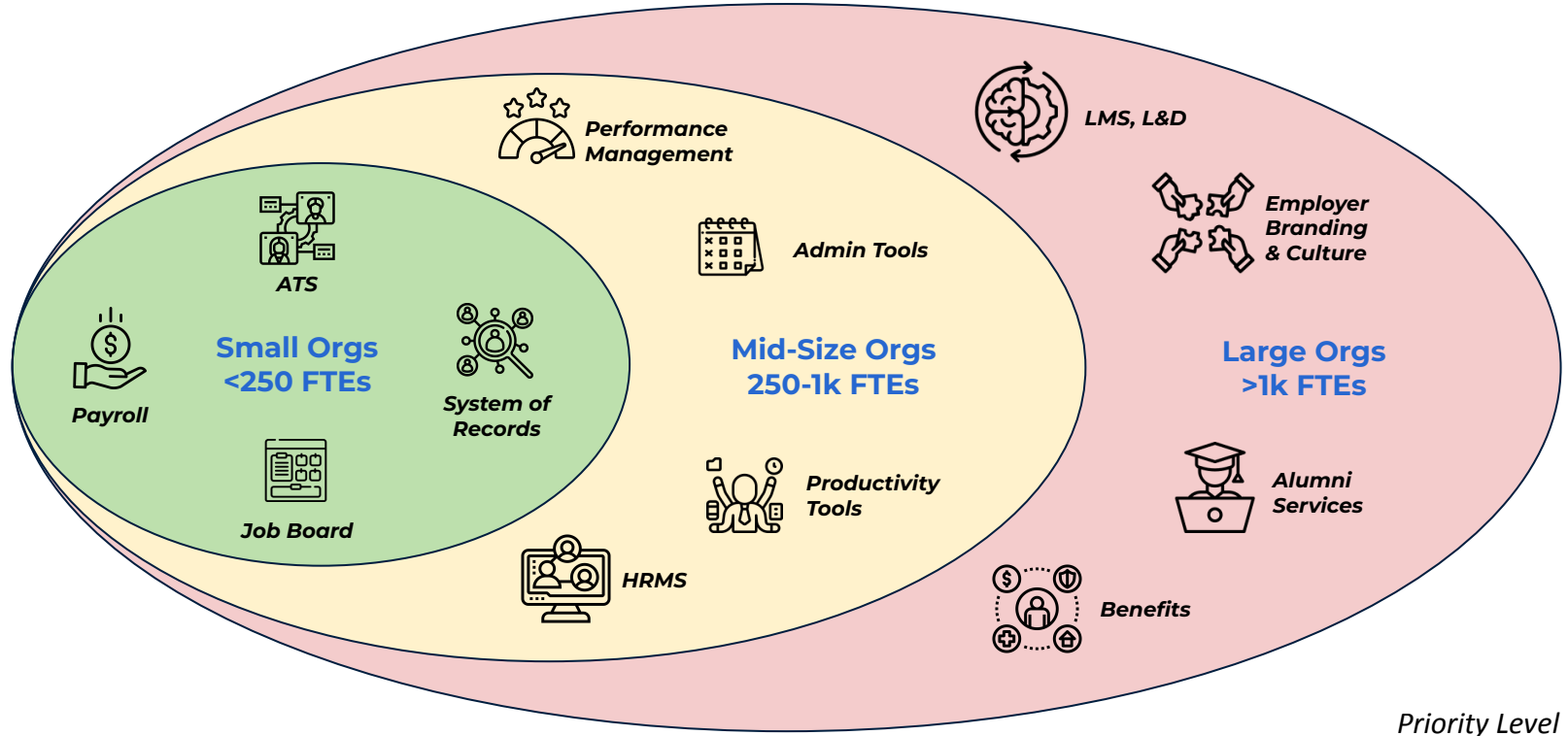
*Estimated Productivity
Tools market size by 2030**

Let's understand what is a
must-have vs a good-to-have
product for teams 🕵️



HR needs grow as the organization grows

(Basis HR Surveys and Interviews)



What remains core and indispensable to organizations irrespective of size is Payroll, Recruitment & Systems of Records.

During budget cuts, these areas are the first to go or be downsized

We spoke to CHROs to understand their priority areas

Employee Lifecycle		
Hiring Process	Tenure	Offboarding
Employer Branding	Knowledge Systems & Productivity Tools	
Talent Planning & Discovery	Admin & Workforce Planning	Exit Management
Assessments	Training & Coaching	
Contracts & Ref Checks	Performance Management	Alumni Services
Onboarding	Payroll & Finance	
	Benefits + Culture	

Must Have

Good to Have

Low Priority

**Let's look at the ICP
(Ideal Customer Persona)
for each sub-space 🤝**



The relative influence of the ICP within the org is key

The ICP that the company is selling to is key because it impacts:

1. Budget that the spend is coming out of
2. Speed of decision making
3. Number of decision makers (or deal breakers)

Depending on the organization, different stakeholders have different levels of power. Here are some of our learnings from speaking with HRtech founders:

1. CROs (Chief Revenue Officer) or any Head of Sales / Revenue Growth are powerful ICPs because they typically have very high budget approvals and are authorized to make decisions quickly and autonomously.
2. For larger corporates, 'Head of Human Resources' is typically able to get faster (and higher budget) approvals than the Head of Talent Acquisition or Head of L&D.
3. Different organizations empower stakeholders and teams differently. Some organizations give their HR leaders a lot more autonomy, while others see them as second to revenue driving teams.
4. Rapidly scaling organizations typically give their Head of Talent Acquisition a lot more autonomy and budget than larger corporates that scale their teams more slowly (or have very structured hiring processes).



Depending on the JTBD*, HRTech companies sell to different ICPs

	Small (0-250 FTEs ⁽¹⁴⁾)	Mid Size (250-1000 FTEs)	Large (1000+ FTEs)
	3-5 person HR Team	5-15 person HR Team	20+ person HR Team
	65% HR Team is HR Leaders**	38% HR Team is HR Leaders**	31% HR Team is HR Leaders**
	HR Spend: \$3,600 per FTE**	HR Spend: \$2,000 per FTE**	HR Spend: \$1,500 per FTE**
Sanctioner	C-Suite	CHRO, HRBP ⁽⁴⁾ , Functional Head, CFO	Head of Recruitment, Head of Talent Management, Head of L&D, Benefits Administrator, Functional Heads, Procurement Team, CFO
Influencer	IT, Head of HR, Head of Recruitment	Head of HR, Chief of Staff, Head of Recruitment, HRIS / IT	HRBP, HRIS / IT, HR Team
Primary User	IT, Employees	HRIS / IT, HR Team, Employees	HRIS / IT, Employees
	C-Suite and Budgets typically dictate HRTech spend in small organisations. Main HRTech buys include ATS, Payroll and Job Boards.	Mid-Size Orgs typically bring on a CHRO to take over nascent HR Operations and build out a culture and robust function. Here old and new members work together the architect the HR workflow.	Large Organisations have highly empowered, autonomous HR supervisors. Most of the HRTech stack' is decided upon and HRs focus on strategic elements like People Analytics and Employee Retention.

*JTBD: **Jobs to be Done**

Source: **Workforce Analytics: A Critical Evaluation: How Organizational Staff Size Influences HR Metrics (SHRM, 2015)

HRTech startups have expanded ACV (and TAM) by becoming full stack solutions.

But, how do you build towards full stack?



And some subspaces grow into full stack platforms more easily

What creates an attractive wedge (or starting point) to build a full stack platform from?

- ✓ High priority area for employers (eg: Attendance tracking, Govt mandated insurance / EPF, Payroll)
- ✓ Organic and frequent usage of platform takes place (Eg: OKRs and Performance tracking, Daily communication platform)
- ✓ Has valuable data capture → i.e. is a powerful system of record (Eg: Payroll, Tax / Compliance)

Based on these criteria, we have evaluated which subspaces are not likely / less likely / more likely to become full stack solutions

More Likely

Less Likely

Not Likely

Hiring Process	Tenure	Offboarding
Employer Branding	Knowledge Systems & Productivity Tools	
Talent Planning & Discovery	Admin & Workforce Planning	Alumni Services
Assessments	Training & Coaching	
Contracts & Ref Checks	Performance Management, Rewards & Recognition	Exit Interviews
Onboarding	Payroll & Finance	
	Benefits + Culture	

We triangulated signals to find key opportunities for startups

	Is this a large TAM?	Is this a whitespace?	Where is this in the priority stack?	Is this a powerful wedge?	High Switching Cost?
Talent Acquisition	✓	●	✓	●	✗
Knowledge + Productivity Tools	✓	✓	●	●	●
L&D + LMS	✓	●	●	✗	✓
Performance Management + R&R	●	✓	✓	✓	●
CompBen + Payroll	✓	✗	✓	✓	✓
Benefits + Culture	✓	✓	●	●	●
HRMS	●	✗	✓	✓	✓
Alumni Services	✗	✓	✗	✗	✓

✓ Yes	● Maybe	✗ No
----------	------------	---------

These are the opportunities we're excited about in HRTech

Hiring Process	Tenure	Offboarding
Employer Branding	Knowledge Systems & Productivity Tools 	
Talent Planning & Discovery	Admin & Workforce Planning 	Alumni Services 
Assessments	Training & Coaching	
Contracts & Ref Checks	Performance Management, Rewards & Recognition 	
Onboarding	Payroll & Finance 	Exit Interviews
	Benefits + Culture 	



We believe this is the ‘right to win’ in this space

- 1 Full Stack Potential:** *Platforms that can expand from their starting wedge and cover more jobs-to-be-done (for example: expanding from payroll to early salary benefits) can increase TAM and switching costs*
- 2 Enterprise Focus:** *Startups selling to larger companies can aim for higher ACVs, more stability (these companies have lower mortality), higher stickiness (harder for them to move platforms / migrate data) – but at the cost of a longer sales cycle and tougher compliance needs*
- 3 Global GTM:** *Given India's limited enterprise market / low HRTech spend, startups need to add global customers to cross the \$10m revenue barrier → they have to (a) excel at cross-border GTM, (b) build world class products, (c) pick spaces that allow for cross border fulfilment*
- 4 Powerful ICP:** *Different CXOs have different levels of budgets and approval authority → most HRTech startups will typically see a buyer-user disconnect therefore startups that prioritise adding value to powerful ICPs see shorter sales cycles, higher ACVs, and stickiness*
- 5 Painkiller; Not a Vitamin:** *Companies selling in ‘vitamin’ or lower priority subspaces are more likely to get cut during budget cuts and tend to see longer sales cycles, harder budget approvals*
- 6 Enterprise Sales / HR-Experienced Founders:** *HRTech almost exclusively rests on enterprise sales (including global enterprise sales) → having a co-founder who is experienced in enterprise sales is an added advantage*
- 7 Building in a Non-Crowded/Unsolved Wedge:** *As you can see in our startup map, most spaces in HRTech are crowded → unless you are building a 10x better solution, you are unlikely to get high margins or large market share in a crowded space*
- 8 System of Record:** *Platforms that are inherently powerful systems of record, i.e. capture, store, and present large key data see higher platform stickiness, high switching cost, and higher ability to become full stack.*

Theme #1: Verticalization of HRTech

Verticalization is a proven strategy to win market share in a competitive market category.
The key strategy here is to find underserved industries or growing market niches and solve for their industry-specific needs.

Where does verticalization make sense?

Industries with High Employee Churn

These markets typically exhibit a job supply and demand mismatch and should aim to help companies hire job-ready talent on-demand and solve for bulk hiring. Eg: Healthcare, Hospitality, Retail Industry.



Underserved Markets & Growing Niches

By tailoring technology to specific industry needs, HRTech can unlock new opportunities, drive growth and win market share in underserved or growing niches.



Compliance Heavy Industries

Compliance-heavy industries require industry-specific reporting, employee training, checks and balances to ensure regulatory compliance, risk mitigation and improved efficiency.



Industries with Complex Business Processes

Industries with complex business processes prioritize workflow automation, workforce visibility, and efficiency..



Why We Like Vertical Focused HR Software

- Verticalization is a strong differentiator in a red ocean
- Industry-specific features result in stronger adoption and higher switching cost
- Speaking the industry language builds credibility, wins market share and results in strong customer loyalty
- Vertical focussed products with rich industry data result in informed product expansion and therefore higher ACVs

Challenges in Verticalization of HR Software

Narrowing of TAM

Vertical HR Software plays in smaller (or more limited) markets. This can be overcome by picking a larger/high spend bucket to play it.

End state

Very few vertical HRTech plays have gone all the way to IPO. Favourable outcomes would then be M&As, full stack expansion, expansion into related verticals.

Concentration Risk

Industry shocks and recessions greatly affect vertical players.

Theme #2: Rise of gig and contingent white collar workers

Gig worker and **contingent worker** are terms that are typically used interchangeably.

We distinguish between the two basis the duration of employment:

- Gig workers typically work on a **per-project or per-task** basis
- Contingent workers are engaged in temporary work for **continuous contractual periods** of time.

The Gig Economy market size is growing at a CAGR of 16.18% and is expected to be a \$873B market by 2027 [Source: LinkedIn Pulse].

Niti Aayog estimates that India's gig and platform workforce will expand to 23.5M workers by 2029-30. Today 47% of these workers are engaged in medium-skilled jobs, and 22% are engaged in high-skilled jobs.



Upwork

GigIndia

guru

f/exip/e

fiverr.

Futwork

SquadStack

Tailwinds Supporting White-Collarization of Gig & Contingent Work

- ✓ Hustle Culture, Moonlighting & Aspirations
- ✓ Emergence of Platforms Enabling Freelancing
- ✓ Globalization & Work-Without-Borders
- ✓ Changing Work & Workplace Preferences
- ✓ Job Market Volatilities
- ✓ Economic Downturns & Cost Cutting
- ✓ Limited Supply of Skilled Workers

Problems to Solve for in White Collar Gig Work

- 💡 Employer-Gig Worker Matching / Discovery
- 💡 Assessment, DD, & Quality Assurance
- 💡 Project Management Tools
- 💡 Finance & Business Management
- 💡 Skill Development & Training
- 💡 Benefits & Support
- 💡 Networking & Socialization

Theme #3: Move towards hybrid / remote work

The COVID-19 pandemic forced many companies to adopt remote work which has now translated into hybrid work policies. This accelerated the adoption of flexible work across various industries in order to prioritise business continuity and employee health. While fully remote work is not as prevalent as it was in pandemic years, most organizations have opted to continue with hybrid work.

Tailwinds to suggest hybrid work is here to stay

✓ **Employee Preferences:** Majority of the workforce today prefers hybrid or flexible work arrangements over fully remote or fully in-person models. Hybrid work has led to higher job satisfaction and improved retention rates. [WEF Survey](#) across 95 countries showed that 68% of respondents prefer hybrid work, 24% fully remote and 8% prefer fully work from office.

✓ **An Alternative Employee Benefit:** Hybrid work policies are acting as alternative employee benefits and helping organizations attract and retain talent. A [McKinsey Report](#) shows that flexible working arrangements are now one of the top 3 motivators for Americans who are seeking new jobs.

✓ **Cost Savings to Employers:** Remote and hybrid work policies enabled employers to cut down on office rent, utilities etc.

Core Problems to Be Solved

- 💡 Employee Engagement & Team Building
- 💡 Workflow & Process Automation/Digitization
- 💡 Performance Evaluation & Monitoring
- 💡 Mental Health & Wellness



Theme #4: Employee benefits in India

While benefits has the makings of a vitamin and not a painkiller, this space is particularly interesting from an India angle for the following reasons:

- ✓ India's Corporate Wellness Market is an INR 23,000cr opportunity; India's Corporate Health Insurance is an INR 31,000cr opportunity [[Mint](#)]
- ✓ There is strong compliance and regulation driving employers to offer benefits to their talent force.
- ✓ As there is limited supply of highly skilled workers in India + increased competition for employers to attract and retain best in class talent → discretionary benefits help employers win their preferred candidates.
- ✓ In a credit starved, high interest market like India, many innovative financial products are being built around corporate loans and advances, HRIS employee data.

Statutory Benefits

Gratuity

EPF

Maternity Benefits

ESI

PTO

Bonus

Discretionary Benefits

Memberships

Health & Life Insurance

Meal Tickets/
Coupons

Employee Purchase Programmes

Earned Wage Access

Travel & Transport

Corporate Credit Cards

Mental & Physical Wellness

Thank you!

For questions or feedback please contact:

Nachammai | ns@blume.vc

Radhika | radhika@blume.vc

Blume Ventures | Fall 2023

