



HR Tech Funding 2021

Anita Lettink

INTRODUCTION

With investments exceeding **12 billion** dollars, 2021 was an extraordinary year for HR Tech companies.

I registered \$12,275,512,500 across 330 VC deals. It's more than the two prior years put together!

And with **22** new unicorns, 2021 was HR Tech's best year ever.

308 companies completed one deal, and 22 of them raised money twice. The investments cover the whole spectrum of HR services*, but HCM Suites & Pay solutions stand out as the clear winners.

All these companies create SaaS solutions with subscription revenue models: modern HR only runs in the cloud. Artificial intelligence, machine learning, automation and analytics are must-have components. And with best-of-breed as the dominant strategy, API vendors are looking to disrupt the landscape.

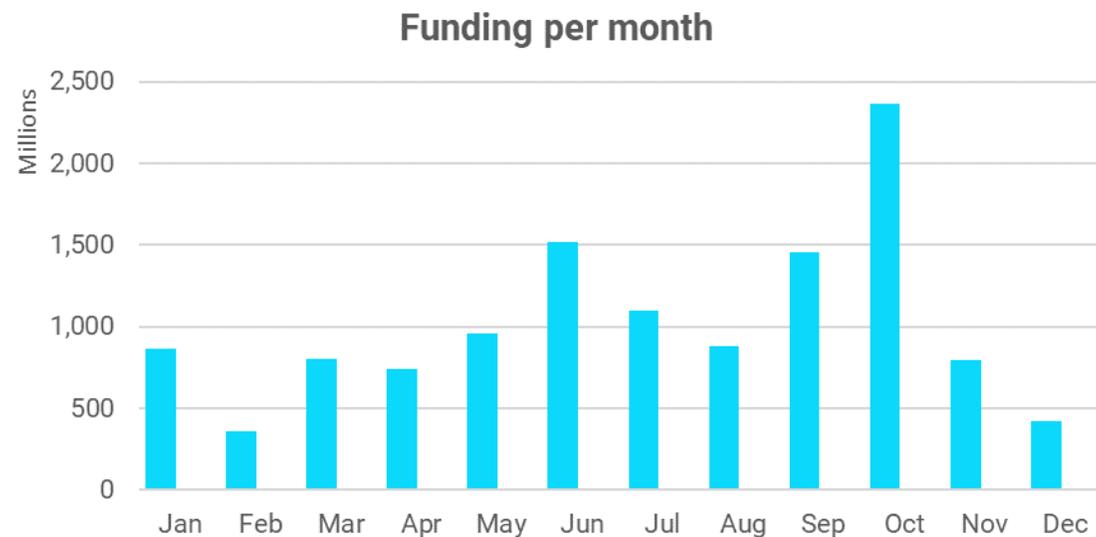
The outcomes of these investments will become clear in 2022 and I'm excited to see what these companies will deliver. I'll keep you posted in [my newsletter!](#)

Happy reading, Anita

FUNDING ACTIVITY

- With the pandemic raging on, and return-to-work dates being pushed back several times, most knowledge workers are now fully remote with no intention to return to the office, at least not fulltime.
- Venture capitalists became aware of the fast scaling and growth potential of cloud solutions that administer and pay the remote workforce, especially as adoption skyrocketed during lockdowns in many parts of the world.
- This investor hype resulted in 330 VC deals and over \$12B for HR Tech solutions in 2021 alone, more than the total of the two prior years. \$4.6B went to solutions to manage and pay the workforce.
- The boost in founding activity in the early days of the pandemic was accelerated by growing investor attention: 49 companies that raised venture funding were only founded in 2020. This group secured \$386M.
- The growing interest of venture capitalists for HR Tech solutions prompted even more founders to enter the ecosystem in 2021, and 4 of them announced a first round of funding as they came out of stealth.
- 247 individual VC firms led 330 funding rounds. Tiger Global Management led 12 rounds, Softbank Vision Fund 2 led 6 rounds and Insight Partners led 5. 6 investors led 4 rounds each.
- The vast majority of VCs led 1 round. 14 rounds had an unknown lead investor. More than a thousand firms participated in funding rounds led by others. None of them are dedicated to the HR Tech space. The good news is that HR Tech companies can interest a wide variety of investors when they want to raise money.
- Most impressively, the focus on HR Tech led to several mega-deals, bringing the value of the average funding round to \$38M.
- 46 deals had a value of more than \$100M, and 5 companies completed 2 of those. We haven't seen anything like it.
- Deel announced the largest round of \$425M in October, after the company completed a \$156M round in April.
- 18 companies closed a funding round with a value below \$1M. cwallet took the smallest investment of \$200k.
- 22 companies used the growing interest of investors and availability of capital to complete 2 rounds in 2021.
- Keep in mind that founders don't receive the total amount at once. Investors set performance indicators that unlock the next tranche of capital. 2022 will reveal if these investments lead to increased growth so founders can access more capital. Be prepared for failures.

FUNDING PER MONTH



With \$2.3B, October was the largest month in deal value. Interestingly, 37 deals were completed in September and October. But while the average deal value in September was \$39M, in line with the annual average, the average deal value in October was \$64M thanks to 7 rounds of over \$100M each. The lowest month of the year was February with \$363M.

22 NEW UNICORNS

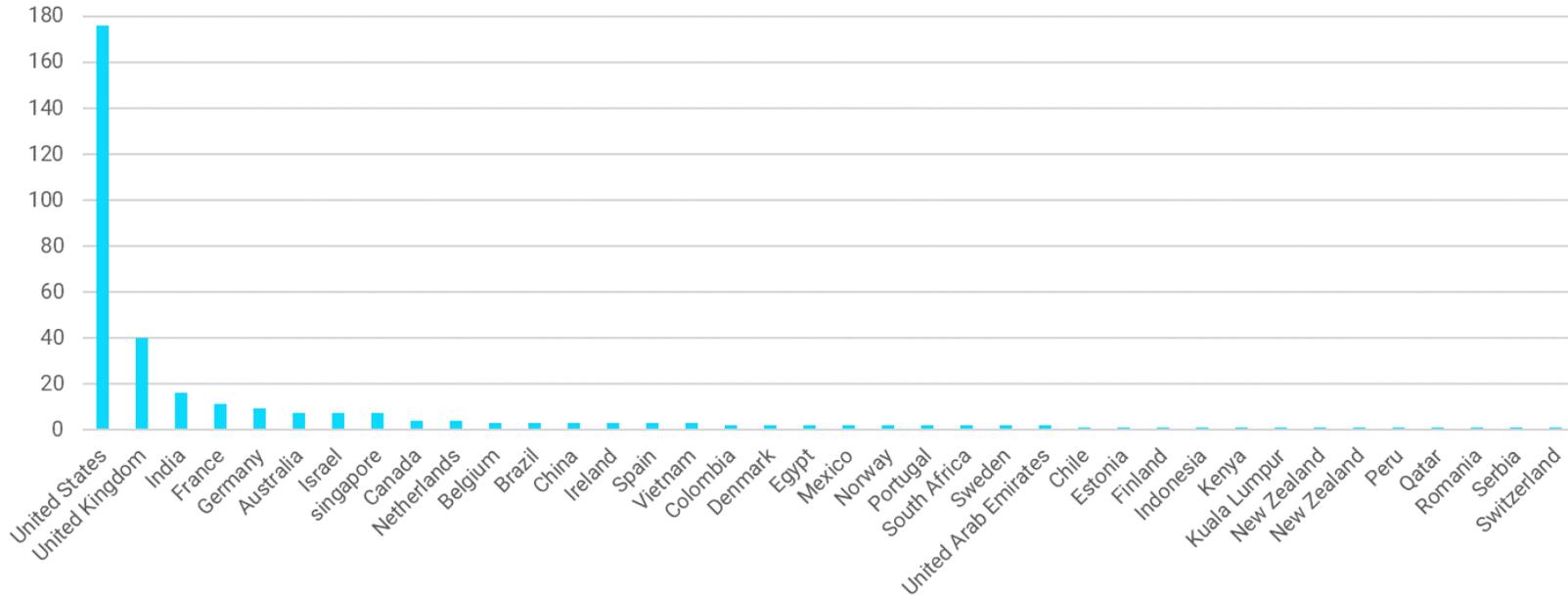
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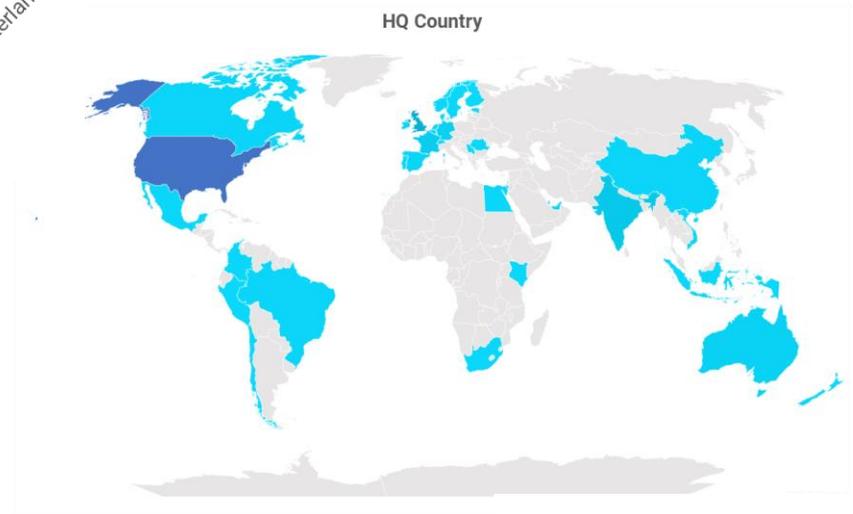
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GLOBAL SPREAD

Funding rounds per country



The data shows that most HR Tech companies are headquartered in the US and the UK. However, even when companies are founded elsewhere, they often move their headquarters to the US or the UK shortly before approaching investors. The origin of founders and companies is much more culturally diverse than the data suggests. The same can't be said for gender diversity: less than 10% of founders are women.



DEAL SPREAD

Funding (\$)	# of Companies
>100M	46
>25M	57
>10M	75
>5M	40
>1M	79
<1M	18
undisclosed	15

Founded	Av. Round \$M
2013	104
2014	65
2015	54
2016	54
2017	18
2018	15
2019	18
2020	8
2021	6

Investor	Rounds Led
Tiger Global Management	12
SoftBank Vision Fund 2	6
Insight Partners	5
Coatue	4
General Atlantic	4
Accel	4
Y Combinator	4
GreenOaks Capital Partners	4
Index Ventures	4
Group 11	3
General Catalyst	3

Company	Amount Process
cwallet	200k HCM & Pay
PayDashboard	226k HCM & Pay
Strove	277k Health & Wellness
Stryve	329k Talent Acquisition
RecruitLab	339k Talent Acquisition

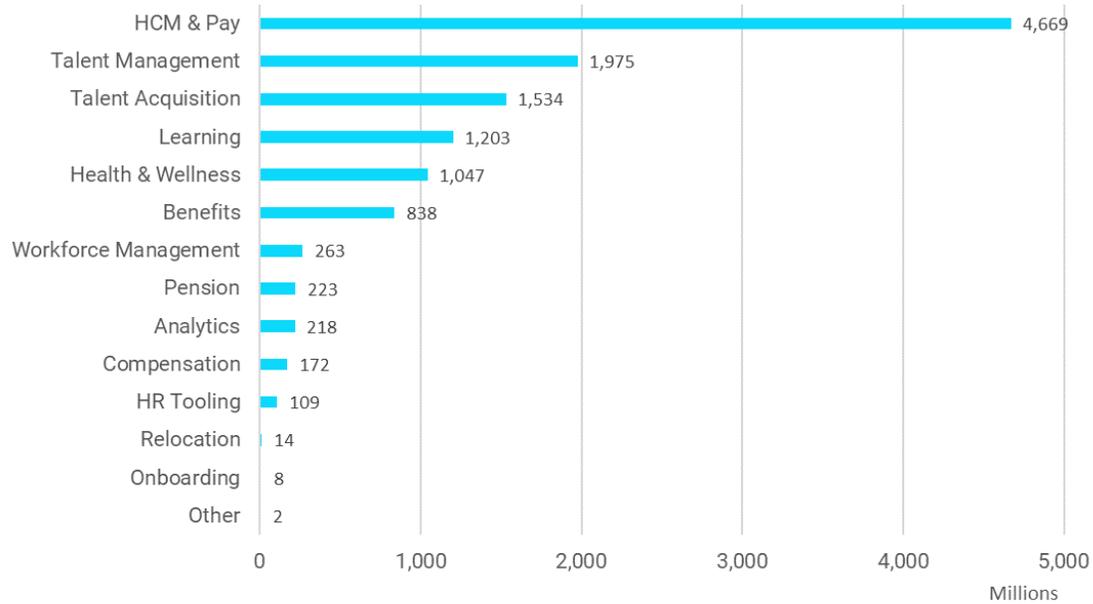
Company	Amount Process
Deel	425M HCM & Pay
BetterUp	300M Talent Management
Paycor	270M HCM & Pay
Personio	270M HCM & Pay
Beisen	260M HCM & Pay

HR SERVICES

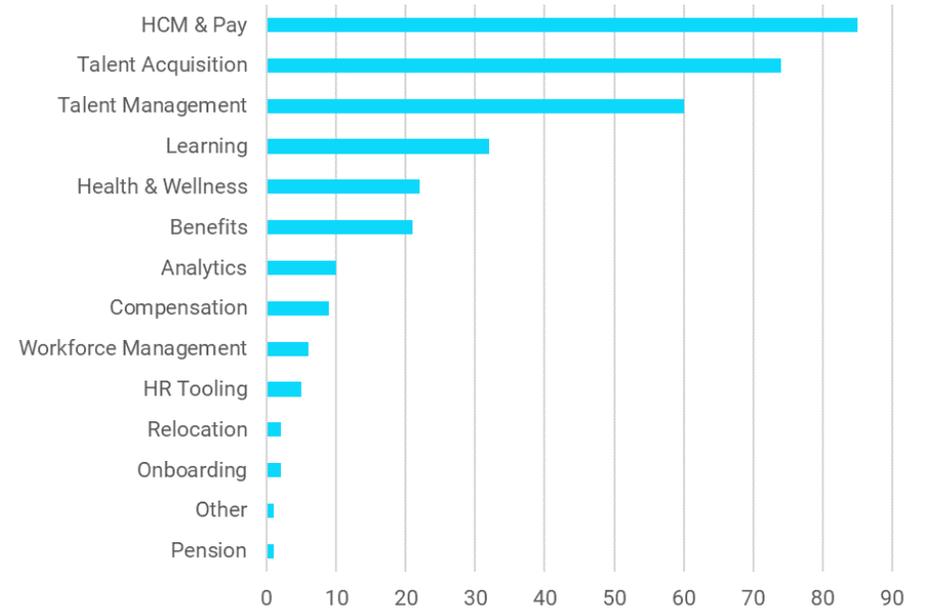
- From a deal value perspective, the best performing HR services were HCM & Pay with \$4.6B, Talent Management with \$1.9B and Talent Acquisition with \$1.5B in funding.
- With 85 rounds completed, the HCM & Pay space was not only the most-funded category in 2021, but also the largest in deal count.
- In the first half of the year, business leaders paid much attention to the mental health of employees and modern, better ways to manage talent. As their focus shifted to retaining employees and remedying worker shortages during the second half, investors quickly followed suit.
- Talent Management, which raised \$1.2B in the first half of the year, was outperformed by Talent Acquisition raising \$1.3B in the second half. The number of Talent Acquisition deals almost doubled (26 to 48).
- The focus on retaining employees and attracting new workers also led to renewed interest in Compensation (\$172M) and Benefits (\$838M), with the majority of funding announced in the second half of the year.
- Consequently, investments in Health & Wellness including Mental Health solutions, sharply fell from \$1B in the first to \$46M in the second half of the year.
- Although some vendors come to market with world domination in mind, most of them firmly focus on the local or regional SMB space. They put the threshold at serving businesses with max 5000 employees. It's a smart move to keep solutions in line with customer needs without having to incorporate the complexities of enterprises.
- New HR solutions usually include analytics and dashboards. Even so, employers want more insights, including predictive analytics. Workforce Analytics solutions that are capable of unifying data from many sources, is an emerging category. 10 companies secured \$218M in funding.
- The Learning space more than doubled: from \$389M in the first to \$812M in the second half of the year. Investors were especially interested in companies offering just-in-time, micro-learning solutions. AR and VR didn't receive a lot of attention or funding.
- Coaching is typically only offered to executives. However, digital innovations democratize the process and make it less exclusive and more affordable. Several companies introduced personalized coaching solutions to help employees improve performance and productivity.

HR SERVICES – DEAL VALUE AND COUNT

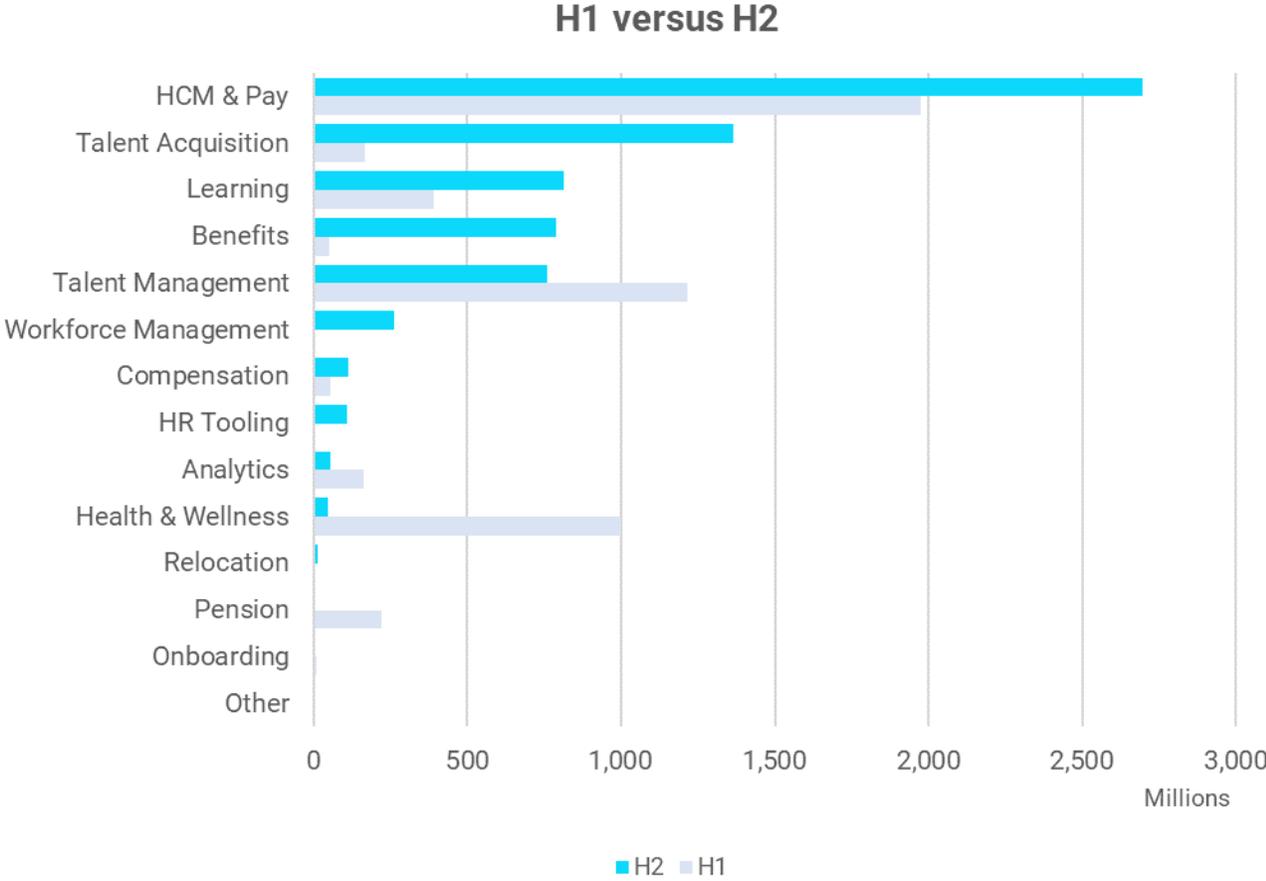
HR Tech Deal Value 2021



HR Tech Deal count 2021



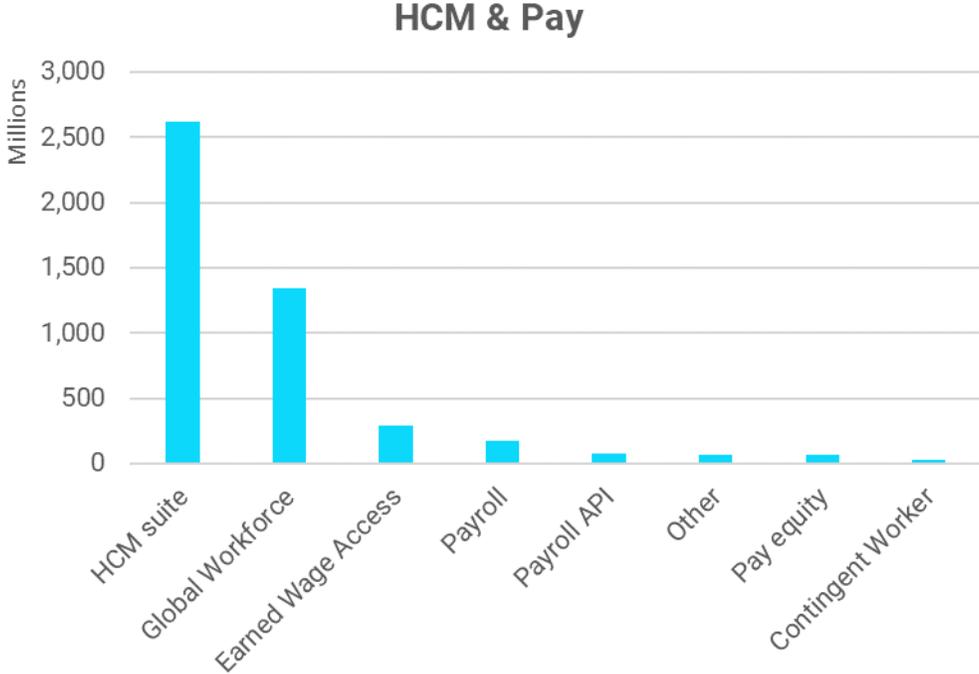
HR SERVICES SHIFT



SPECIAL FOCUS: HCM & PAY

- The rapid rise of remote work, advocated by young, modern and high-growth companies that source their staff from anywhere, revealed a gap in the HCM and Pay domain: paying individual workers outside of the home country. These remote companies are not yet large enough to be of interest to the established payroll vendors, but the market is growing fast.
- New companies introduced solutions to manage this *Global Workforce*, using novel technology applications and agile processes that first-generation vendors so far have been unable to copy.
- The future of work, and the way companies employ remote workers is being designed as we speak. No market leader has emerged, and startups continue to come to market with a focus on this niche.
- *HCM and Pay* attracted the most capital (\$4.6B). Funding in the second half of the year (\$2.7B) surpassed that of the first half (\$1.9B). The remote worker market is in its infancy and investors are betting on a wide selection of solutions. How they can sustain growth remains to be seen, since most of them rely on a network of traditional in-country payroll vendors.
- The rise of the gig platforms has changed worker's expectations around the time of pay. Earned Wage Access (\$287M) became a topic of interest as employers realized it could help employees achieve financial wellness. Several companies were founded, but their long-term prospects are unclear as payroll vendors start to include this service in their offering.
- Founders approach HCM Suites (\$2.6B) in 2 ways:
 - Companies that create a modern HCM Suite using new technologies: a core HR layer with Talent functionality that can support a global employee base. While they provide APIs for local payroll and time integration, services are out of scope.
 - Companies that create industry HCM Suites, with a focus on e.g., entertainment, construction, healthcare. They are local and include payroll, plus scheduling where applicable.
- \$1.3B of investment went to founders creating Global Workforce solutions: a global, core HR data layer with integrated analytics and standardized connections to local payrolls including payment services. They establish partnerships with regional or local payroll vendors to provide in-country services. These solutions are a one-stop-shop for remote workforce needs and include Employer of Record and contractor services.
- And finally, fintech founders look at the Pay space with a fresh eye and are eager to disrupt it by moving up in the pay value chain. Several funding rounds went to young companies that develop standardized API offerings, so data can move easily between HR, pay, recruiting and accounting systems as well as banking and other financial platforms. This is only the beginning, with much more to come in 2022.

SPECIAL FOCUS: HCM & PAY SERVICES



WHAT'S NEXT?

The 2 main workforce issues to solve this decade are *demographics* and *skills*.

We have more than enough people to fill every job. But there is a demand mismatch between location and education or skills. Europe, Japan, North America and China face aging populations and less workers. Africa, the Middle East, South America and India have young populations and not enough work.

The outsourcing trend of the last 2 decades came to a halt during the pandemic. So did immigration. Businesses bring work back to the region due to supply chain issues. With robotics solutions maturing, expect a larger focus on automating work, especially administrative and repetitive tasks.

The People function must find ways to do more with less, for the company workforce and for the function itself. How can we make people more productive by focusing on what brings value while automating or eliminating the remaining activities? Better adoption of robotics will help them get there. Predictive analytics delivered in business dashboards are key for success.

The current skill sets of the workforce are unfit for the demands of the *Age of Intelligence*. Employees must have a much better command of technology and understand the value of data. Skills become obsolete much faster (est. 25% per year). Expect to see new learning solutions that are immersive, activity-based, just-in-time, using extended reality and delivered as micro-courses.

Personalization is key. Skilled workers expect an elevated work and employee experience. They want everything, everywhere, all the time.

Some lists compare traditional to future work cultures and suggest that the future office is the only way to go. But today's problem is that in order to attract the right workers, you can't do either or. If you want to attract a broad set of employees, you must offer them a menu of options.

Some people prefer a traditional, hierarchical work setting in an office, while others blossom in a flat, networked environment that allows them to work from anywhere. Choosing one over the other will make you less attractive as an employer, and that could be detrimental considering the labor shortages. It's important to create a work culture that allows people to grow, and offers options with personalized experiences, especially around mentoring, learning, coaching, compensation and benefits.

As the metaverse and web 3.0 explode onto the scene, it's easy to dismiss them as the next hype. But they bring technological innovations that will undoubtedly influence work and pay. It's yet to be determined how much and in what way. I'll explore these developments in 2022.

Want to join me on this journey? Sign up for [my newsletter](#) and be the first to know.

SCOPE

Everyone looks at the HR Tech space a bit differently, so what is the scope of this research?

This report focuses on the solutions that *directly* support the HR or People function and are most likely to be procured by CHRO's and their teams.

That means that the following solutions are excluded:

- Productivity platforms
- Job boards
- Marketplaces for independents
- Course platforms and EdTech (a category by itself)
- Experience technology
- Solutions for gig workers
- Virtual offices
- Event platforms

During the pandemic, a category called *WorkTech* emerged, which includes solutions that support the employee experience through digital workplace and productivity platforms: these solutions are excluded.

To establish the overview, investment news from sources across the world in several languages are tracked. Note that the list is not complete: sometimes a company doesn't publish a press release – this happens more often than you think – or the investment is private. All funding rounds are shown in US dollars.



Anita Lettink brings insights and perspectives about the future of work, workforce transformation and technology to companies, investors and institutions worldwide.

I am fascinated by the Future of Work and exploring the metaverse. I am the founder of hrtechradar.com and the force behind HR2025 research.

Want to know more? Please reach out.



QUESTIONS?



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