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## Cornerstone OnDemand: An Emerging Leader in the Talent Management Systems Market

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The talent management software market, which has reached more than \$3 billion this year, continues to grow – attracting new players, consolidations and emerging leaders. In this bulletin, we discuss Cornerstone OnDemand, a company we have been following since its early days, and review the company's positioning, strengths and trajectory.

### Market Dynamics Today

Today, the marketplace for talent management is defined as "enterprise software," which manages recruiting, performance and succession management, compensation, training, collaboration and learning, workforce planning, and overall talent analytics. This market is very large – virtually any organization (corporate, government and nonprofit) that has more than 100 employees needs tools to recruit, manage, compensate, train and measure the performance of its people. We believe the total worldwide market is less than 20 percent penetrated today and even those companies that have such software are slowly replacing it with more modern, SaaS-based systems<sup>1</sup>.

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<sup>1</sup> "Software as a Service" (or SaaS) refers to the business of selling software over the Internet as a web service. In this business model, the software vendor charges an annual "rental" fee and can predict recurring revenues far more reliably than with the licensed software model. As SaaS becomes proven and the delivery strategies more refined, most analysts agree that more and more enterprise software will be sold in this way.

Historically, the talent management software market grew out of tools developed in the 1980s and 1990s to automate human resources processes (see Figure 1).

**Figure 1: History of Talent Management Software**

Market Beginnings	Original Concept	Today's Solutions
Performance Management	Forms automation for performance appraisals and salary administration	Integrated performance management, goal management, succession management and compensation software
Recruiting Management	Applicant tracking databases that scanned, stored and administered the workflow from candidate résumés	Integrated sourcing and recruiting software that integrates job postings, advertising and social networking, assessments, workflow, and candidate analytics, including onboarding tools
Learning Management Systems (LMSs)	PC or mainframe learning management systems that scheduled classrooms and instructors, managed waitlists, stored and administered e-learning content, provided online assessments, and tracked online training	Learning management systems that manage classrooms, e-learning, collaboration, knowledge databases, expertise directories, social learning, tagging, and internal and customer-facing knowledge-sharing
HR Management Systems (HRMS)	HRMS software that stores employee system of record data, and which manages payroll, compliance tracking, job history and organizational structure	Integrated HRMS systems that store all employee data, including a rich employee profile used for talent, compliance, reporting, analysis, payroll and collaborative applications

Source: Bersin & Associates, 2011.

As this history in Figure 1 shows, there are really four core markets for talent management software and all vendors essentially started in one of these four segments. Today, there are more than 100 software companies<sup>2</sup> that play in this market, ranging from large companies

<sup>2</sup> Please see, "Appendix I: Major Software Vendors in the Talent Management Marketplace."





## KEY POINT

Almost one-third of all buyers are willing to sacrifice functional features for the benefits of a single integrated platform.

like Oracle and SAP to small startups like Knoodle and Rypple, which deliver new types of learning and feedback applications. Because the market is so large and there are so many “subapplications” available (e.g., onboarding, feedback management, collaboration, assessments, candidate profiling, social recruiting, talent analytics), there is much room for innovation and specialized products in the market.

Despite the large number of vendors, however, the four major markets shown in Figure 1 comprise the foundational elements of these systems. This is both for historic reasons and also because HR organizations are typically broken into these four groups – the talent acquisition team, the performance and talent management team (*which often integrates with compensation and rewards*), the learning and development team, and the core HR team. Organizations are now actively working to integrate these teams and, in most organizations, there are good reasons for all these functions to be far more integrated than they are today. Yet despite this overall goal, the four markets still tend to operate somewhat independently.

In our *Talent Management Systems* research<sup>3</sup>, we cover this market in great detail, and we show the growth rates and dynamics of this market. The overall market is growing at a rate of around 12 percent to 15 percent this year, and there is a slow but growing trend for buyers to select a single vendor for the three core areas of recruiting, performance management and learning. In our *Talent Management Systems Customer Satisfaction 2011* research<sup>4</sup>, almost one-third of all buyers told us that they were willing to sacrifice functional features for the benefits of a single integrated platform – which has more than doubled the findings from the previous year.

<sup>3</sup> For more information, *Talent Management Systems 2011: Market Realities, Implementation Experiences and Solution Provider Profiles*, Bersin & Associates / Steven Goldberg, June 2011. Available to research members at [www.bersin.com/library](http://www.bersin.com/library) or for purchase at [www.bersin.com/tmsuities](http://www.bersin.com/tmsuities).

<sup>4</sup> For more information, *Talent Management Systems Customer Satisfaction 2011: A Comprehensive Study of Customer Experience with Talent Management Systems*, Bersin & Associates / Barb Arth, December 2010. Available to research members at [www.bersin.com/library](http://www.bersin.com/library) or for purchase at [www.bersin.com/tmscustsat](http://www.bersin.com/tmscustsat).





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The marketplace for talent management is defined as “enterprise software,” which manages recruiting, performance and succession management, compensation, training, collaboration and learning, workforce planning, and overall talent analytics.

## What Is a Market Leader? – Where Cornerstone Fits

In this market, as in all highly competitive software markets, there are companies that are rapidly gaining market share, those which are maintaining their positions and those that are losing market share. The fastest-growing companies have several things in common.

- They have a clear and deep understanding of the market, and a focused strategy.
- Their software is architected for SaaS, and is highly functional, modern and easy to use.
- They have deep cash reserves, so that they can rapidly hire salespeople and market their offerings.
- They have some form of thought leadership that compels HR buyers to work with them.
- They have excellent product management and customer support, helping them to continuously drive innovation and success.
- They are publicly traded, or have excellent sources of capital for acquisitions and growth.

Since the market is in its rapid expansion phase, these companies are also often unprofitable. The financial community (*public markets, as well as private equity*) is currently willing to invest in these companies, despite the fact that most have little to no profitability. There is a well-recognized belief that, because of the SaaS nature of their products, the “winners” in this market will generate high profits and positive cashflow in the future, as they reach large scale and have thousands of customers.

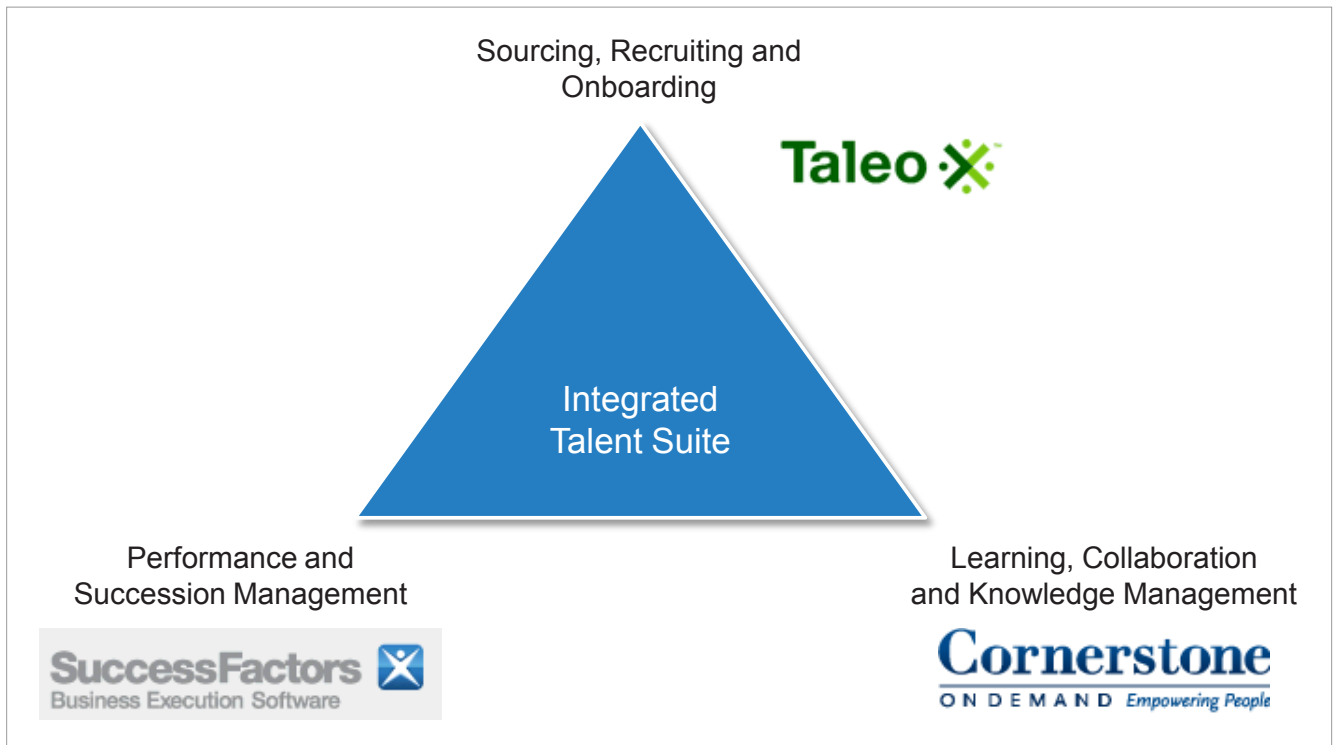
Additionally, since there is a tremendous “land grab” going on, vendors that cannot grow organically take a different approach – they acquire smaller, less well-funded companies. Vendors like Peopleclick Authoria, SumTotal Systems, ADP and Kenexa have taken this route and continue to grow, but this growth is through both acquisitions and organic growth.

If we look only at *fast-growing* companies (*those with an organic growth greater than 30 percent*), those with pure SaaS architectures



and those which are publicly traded, the market looks like this. Taleo is the leader in recruitment applications, SuccessFactors is the leader in Performance and Succession, and Cornerstone leads in the Learning, Collaboration and Knowledge Management markets.

**Figure 2: Leading Publicly Traded SaaS Talent Management Vendors**



Source: Bersin & Associates, 2011.

Other well-established, publicly traded vendors include Saba (primarily learning), Kenexa (primarily recruiting), ADP (midmarket, payroll and HRMS), Oracle, SAP, Lawson and Ultimate – each of which have strong businesses in talent management, but are neither 100 percent SaaS, and do not command growth rates of 30 percent or greater.

If you consider growth rate and the stock market as indicators of market leadership, Taleo, SuccessFactors and Cornerstone are all clear leaders, with valuations of five to 15 times revenue (*many times greater than the other publicly traded HR software companies*). These companies are growing quickly and are highly valued for a variety of reasons (i.e., they

are fully SaaS-enabled, have strong market focus and have financial depth), as shown below.

There are also, by the way, privately held companies, which could qualify as “leaders” in this market, as well – and these include Halogen Software, iCIMS, Jobs2Web, Plateau, SilkRoad technologies and others. For more detail on all of these vendors, please read our *Talent Management Systems 2011* industry study<sup>5</sup>.

### Cornerstone OnDemand’s History and Current Business

Cornerstone started its life as an aggregator of e-learning content for professional development and still focuses heavily on its learning management roots. Originally named CyberU, the company was founded in 1999 and first sold online compliance training to financial services companies. Early in its life, founders Adam Miller, Perry Wallack and Steven Seymour realized that they could build an “on-demand” (now called SaaS) learning management system and rapidly develop a product that competed very effectively against the entrenched LMS vendors (which at the time were Saba, Plateau, SumTotal and others). So at its roots, Cornerstone OnDemand’s product strengths are its highly configurable, enterprise-class, SaaS-designed learning management system.

Learning management systems are very complex applications, because they must manage many forms of training, and manage customer and partner training solutions, as well as including e-commerce, comprehensive reporting and integration with talent management. The LMS or learning technology industry is close to \$1 billion in size today, and Cornerstone has shown that the market still has much growth ahead. This market is highly fragmented with dozens of players, but the major vendors (Saba, Plateau, SumTotal, Oracle, SAP, Taleo-Learn.com) have not been able to grow at nearly the rate of Cornerstone. One of the primary reasons for this is that Cornerstone has effectively positioned itself as the “modern,” “enterprise-class,” “SaaS” learning and talent management solution. While the other vendors have all



#### KEY POINT

Cornerstone OnDemand’s product strengths are its highly configurable, enterprise-class, SaaS-designed learning management system.

<sup>5</sup> For more information, *Talent Management Systems 2011: Market Realities, Implementation Experiences and Solution Provider Profiles*, Bersin & Associates / Steven Goldberg, June 2011.





## KEY POINT

Cornerstone's strategy has focused on convincing customers that an enterprise learning management system should be tightly integrated with the company's performance and succession management processes to facilitate development planning and talent mobility.

launched SaaS offerings, Cornerstone is still considered the “newest” of these solutions and is winning business very effectively.

As a result of its history in the LMS market, the company also has a long history of reselling and integrating a wide variety of content – the outcome of which has been many training-related channel partners. This represents a barrier to entry for companies like SuccessFactors which may want to enter the training industry, but do not yet have an LMS offering.

In 2005, Cornerstone realized (*before the talent management explosion began*) that a convergence between standalone performance management systems and learning management systems was going to take place. We actually developed one of the first position papers on this topic<sup>6</sup> and it was largely developed through our conversations with some of Cornerstone's early customers (i.e., Pitney Bowes was one of those pioneers).

Since then, Cornerstone's strategy has focused on convincing customers that an enterprise learning management system, while important for managing training, should be tightly integrated with the company's performance and succession management processes to facilitate development planning and talent mobility. This story, which was novel in the early days, enabled Cornerstone to immediately differentiate itself from SuccessFactors, Taleo, Saba, Plateau, Learn.com and SumTotal. The company also clearly positioned itself as a “new-generation” technology, convincing customers that traditional learning management systems were “legacy applications.”

The LMS market is highly fragmented, and most large companies have one or more LMSs already. This means that much of Cornerstone's growth in the LMS market is coming from replacing current standalone licensed solutions, as well as from selling new enterprise-class solutions which consolidate multiple LMSs from disparate departments. Because Cornerstone is enterprise-class SaaS and delivers a full range of talent management features, the offering appeals to companies that would like to modernize their learning and talent management infrastructures.

<sup>6</sup> For more information, *The Convergence of Learning and Performance Management: Has Talent Management Arrived?*, Bersin & Associates / Josh Bersin, October 2006.



Today, Cornerstone has approximately 485 customers, most of which are relatively large organizations. Of these, approximately 60 percent use more than one of Cornerstone's applications (*typically Learning and Performance Management*), making the company a strong competitor with SuccessFactors and Taleo in the performance and talent management market. Cornerstone also released a first-generation collaboration solution, named Cornerstone Connect, which is starting to gain momentum as the market for talent management collides with market demands for informal learning, rich employee profiles and social networking. The company does not have an offering in the recruiting area today, but plans to build such an offering in the coming year.

The company's current revenues of \$46.6 million (as of 12/31/2010) grew nearly 60 percent over the prior year, a growth rate which is nearly twice that of Taleo and SuccessFactors, and two to three times the growth rate of Saba and Plateau.

### What Makes Cornerstone OnDemand a Market Leader

There are a variety of factors that have helped Cornerstone become an important player in the marketplace.

### Rapid Growth and Market Adoption

The first and clearest indication of Cornerstone's leadership is the company's rapid growth. Today, with revenues of \$47 million and a 60 percent growth rate, the company is the fastest-growing public talent management software company. This gives Cornerstone nearly four times the market value of Saba and nearly two-thirds the market value of Taleo. The company raised more than \$150 million in its IPO, so Cornerstone now has deep pockets to fund its growth.

While the company is still less than one-quarter the size of Taleo and SuccessFactors, the company's high growth rate demonstrates the tremendous demand for an SaaS-enabled talent management system that has an enterprise-class LMS at its core.

Today, Cornerstone has approximately five million online users and approximately 360 employees. The company has resellers in all major markets around the world and is heavily focused in Europe, where it has a strong senior executive and more than 60 local employees today.



#### KEY POINT

With revenues of \$47 million and a 60 percent growth rate, Cornerstone OnDemand is the fastest-growing public talent management software company.



## KEY POINT

Each product release is based largely on Cornerstone's overall view of current customer and total market needs.

## Strong Product Management

A critical factor in a successful enterprise software company is excellent product management. It often takes 18 to 24 months to build a new features set in this market, so it is essential that the company always focus very clearly on "what it needs to build next" to stay competitive and add value to customers.

For the last decade, product management has reported directly to the CEO – and this continues to be true. (*Other highly successful companies that follow this model include Halogen Software, which continues to grow at above-average rates.*) While this model will not likely continue forever, it does mean that each product release is based largely on the company's overall view of current customer and total market needs.

Cornerstone has historically stayed very close to its customers – to the extent that the CEO personally understands the issues and requirements of most large clients. Feature sets have been prioritized and built largely around individual customer needs and, over the last few years, this process has been formalized into a fairly rigorous product management process. Today, the company offers a full range of functionality, including goal-setting, performance management, learning management, customer training, succession management, compensation management, collaboration, analytics and a midmarket solution.

We have met with Cornerstone's product teams many times and, in each view of its future releases, the company has a clear understanding of the tradeoffs between building features that current customers need and building features which will enable the company to move into new markets. In our *LMS Customer Satisfaction 2007* research<sup>7</sup>, Cornerstone achieved a top rating in customer satisfaction – demonstrating the company's focus on customer success.

<sup>7</sup> For more information, *LMS Customer Satisfaction 2007: Industry Analysis of the Customer Experience with Learning Management Systems*, Bersin & Associates / Karen O'Leonard, March 2007. Available to research members at [www.bersin.com/library](http://www.bersin.com/library) or for purchase at [www.bersin.com/lmssat](http://www.bersin.com/lmssat).





## ANALYSIS

Cornerstone's ability to evolve its product capabilities rapidly is a key strength for the company's future success.

### Organically Built Technology

Unlike most of the other vendors in the talent management market, Cornerstone's technology is all internally built. This gives the company a single code line used by every customer. Any single enhancement or bug-fix that the company engineers can be shared by all customers at once. Vendors which purchase other vendors (e.g., Taleo's acquisition of Learn.com, SumTotal's acquisition of Softscape or SuccessFactors's acquisition of Jambok) grow their capabilities and customer base quickly – but they then have the challenge of maintaining multiple products and migrating customers from platform to platform. As long as Cornerstone can continue to innovate quickly (*and so far the company has done so*), the single product line helps the company lower its costs, and deliver a complete and integrated user experience. While a vendor may think that an acquisition enables rapid growth, in the long run it often leads to a slowdown in product development as multiple code lines must be managed. Cornerstone's ability to evolve its product capabilities rapidly is a key strength for the company's future success.

### Customer Success Focus

As companies grow revenues rapidly, all the various functions of the business must grow, as well. In the case of Cornerstone, the company's rapid growth had strained its customer support organization. In 2009 and 2010, the company made major investments in this area and built an end-to-end client success framework. (*We are writing a separate research bulletin on this process.*)

This framework forced Cornerstone to rethink its sales, service, consulting and self-service support mission. Now in its second year of maturity, Cornerstone's client success team integrates the following elements of customer support:

- Implementation strategy and services;
- Support and service;
- Client communities and self-service support;
- Client knowledge management and content management; and,
- Field account management.



## KEY POINT

Cornerstone's customer satisfaction and renewal rates are higher than competitive averages.

Starting in 2011, the company is implementing a net-promoter scoring process (*a form of direct client feedback on all interactions*) that will measure a client's satisfaction with the sales process, implementation process, initial adoption process, and support and service. The company's goal is to empower its support teams to add more resources where needed whenever a client needs greater levels of service.

Part of this strategy is to provide a customer-only "client success center" that will let customers access Cornerstone experts, share content with each other, submit and view bug requests, view upcoming product roadmaps, and reach out to other clients.

In 2009 and 2010, Cornerstone's customer satisfaction levels dropped, largely due to the company's need to revamp and improve its technology infrastructure. This was addressed in a holistic way by completely revamping the company's technology infrastructure, and by bringing in a new senior executive to run product and technology operations. Today, Cornerstone's customer satisfaction and renewal rates are higher than competitive averages.

All the major SaaS application vendors go through these transitions, so this is not unusual – but it is a sign that Cornerstone is working hard to stay ahead of the challenges that it encounters during rapid global growth.

### Channel and Reseller Partnerships

Since the talent management software market is growing so fast, many solution providers are trying to get into this market. Early on in its growth phase, Cornerstone understood the need for this and struck a partnership with ADP. Today, ADP resells Cornerstone as a "white-labeled" product (*ADP resells Cornerstone, but maintains the Cornerstone brand*) into its midmarket business and has closed more than 50 deals. ADP holds warrants on Cornerstone's stock, so we expect this relationship to continue and grow over time. ADP, with more than 500,000 client relationships, represents a tremendous growth opportunity for Cornerstone (*and also uses the product internally*).

Outside of the ADP relationship, Cornerstone has approximately 40 other resellers around the world, each focused on a strategic geography. This has enabled Cornerstone to grow slowly into the



## KEY POINT

ADP resells Cornerstone into its midmarket business and has closed more than 50 deals.



Africa, Asia-Pacific and Latin America markets before setting up direct salesforces in these locations.

## Technology Strategy and Investments

Cornerstone OnDemand is one of the only enterprise talent management vendors which is built on the Microsoft .Net architecture. (*Taleo's Learn.com solution is also built on .Net.*) Over the last 10 years, a variety of software architectures have evolved – including Microsoft, Java, PHP, Ruby and others. Microsoft technology is considered one of the most mature, but more expensive solutions on the market.

To address this issue, Cornerstone recently invested in a whole new technology infrastructure and two new datacenters. Its back-end architecture, while proprietary, uses the concept of “swim lanes” – which couple database servers with application servers for maximum scalability. The company claims that its cost per transaction is now the lowest in the industry. The system is SAS70 I and II compliant, and ISO 27001 security compliant.

While most SaaS vendors do not disclose their technology architecture, it often becomes a roadblock to growth as the business expands. In this case, Cornerstone just overcame this challenge with its new architecture – and we expect that this new architecture can easily scale the company to four to five times its current size.

## Clear Vision of Its Market

In a market as crowded and dynamic as this one, it is important for companies to understand their strengths and stay focused on their cores. Cornerstone clearly recognizes that one of the company's core differentiators is its enterprise-class learning management roots. The LMS marketplace is the oldest of all of the four talent markets, so there are thousands of companies with dated systems which are expensive to maintain and upgrade. A core strength of Cornerstone is the company's ability to sell a modern, SaaS-powered solution to its clients – and move them into an integrated talent platform over time.

This puts Cornerstone in a class by itself when competing with Taleo and SuccessFactors – neither of which have an enterprise-class learning management system today. When competing with Plateau, Saba,



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Cornerstone is laser-focused on expanding its market share by simply growing its customer base in the markets that it already serves.



## ANALYSIS

Cornerstone OnDemand has a strong management team, excellent product management, and a culture of customer support and success.

SumTotal and other LMS providers, Cornerstone can clearly state that it is the only pure SaaS, fast-growing vendor in the market.

In its efforts to compete and drive business in the talent management market, the company has built a very easy-to-use, fully functional talent management system which appeals directly to HR and talent management practitioners. The market leader, SuccessFactors, is still ahead of Cornerstone in functionality and customer base, and other vendors (such as Taleo, Halogen, Peopleclick Authoria, SilkRoad and SumTotal / Softscape) all have highly competitive capabilities. Where Cornerstone often wins is in the company's ability to market and deliver a "total solution" – all built from the ground up, including talent management, learning management, collaboration and compensation.

Right now, with a public offering fueling its growth, the company is laser-focused on expanding its market share by simply growing its customer base in the markets that it already serves. We also expect the company to build a first-generation recruiting solution in the next year, which will round out its offering into a total end-to-end suite.

### Can Cornerstone Continue to Grow at These Rates?

There is no question that Cornerstone OnDemand is an emerging and fast-growing market leader. With its recent IPO and deep pockets, the company can invest heavily in sales, marketing and product infrastructure to compete with larger players in the market. The company has a strong management team, excellent product management, and a culture of customer support and success. With its strong momentum and excellent market positioning, we expect Cornerstone to continue to grow its revenues and market share in the coming years.

## Appendix I: Major Software Vendors in the Talent Management Marketplace

The following is a current list of major talent management software providers.

ADP

Bond Talent

Cezanne

Cornerstone OnDemand

Halogen

Healthcare Source

HRsmart

iCIMS

Insala

Job Partners

Kenexa

Lawson

Meta 4

NorthgateArinso

NuView

Oracle / EBS

Oracle / PeopleSoft

Organization Metrics

PageUpPeople

Peopleclick Authoria

Pilat

Plateau  
Saba  
SAP  
SilkRoad technology  
StepStone Solutions  
SuccessFactors  
SumTotal Systems  
Taleo  
Technomedia  
TEDS  
TowersWatson  
Ultimate Software  
Workday  
Workstream



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