NEAT EVALUATION FOR CORNERSTONE ONDEMAND:

Next Generation HCM Technology

Market Segment: Mid/Large Market Focus

Introduction

This is a custom report for Cornerstone OnDemand (CSOD) presenting the findings of the NelsonHall NEAT vendor evaluation for *Next Generation HCM Technology* in the *Mid/Large Market Focus* market segment. It contains the NEAT graph of vendor performance, a summary vendor analysis of CSOD in HCM technology, and the latest market analysis summary for next generation HCM technology.

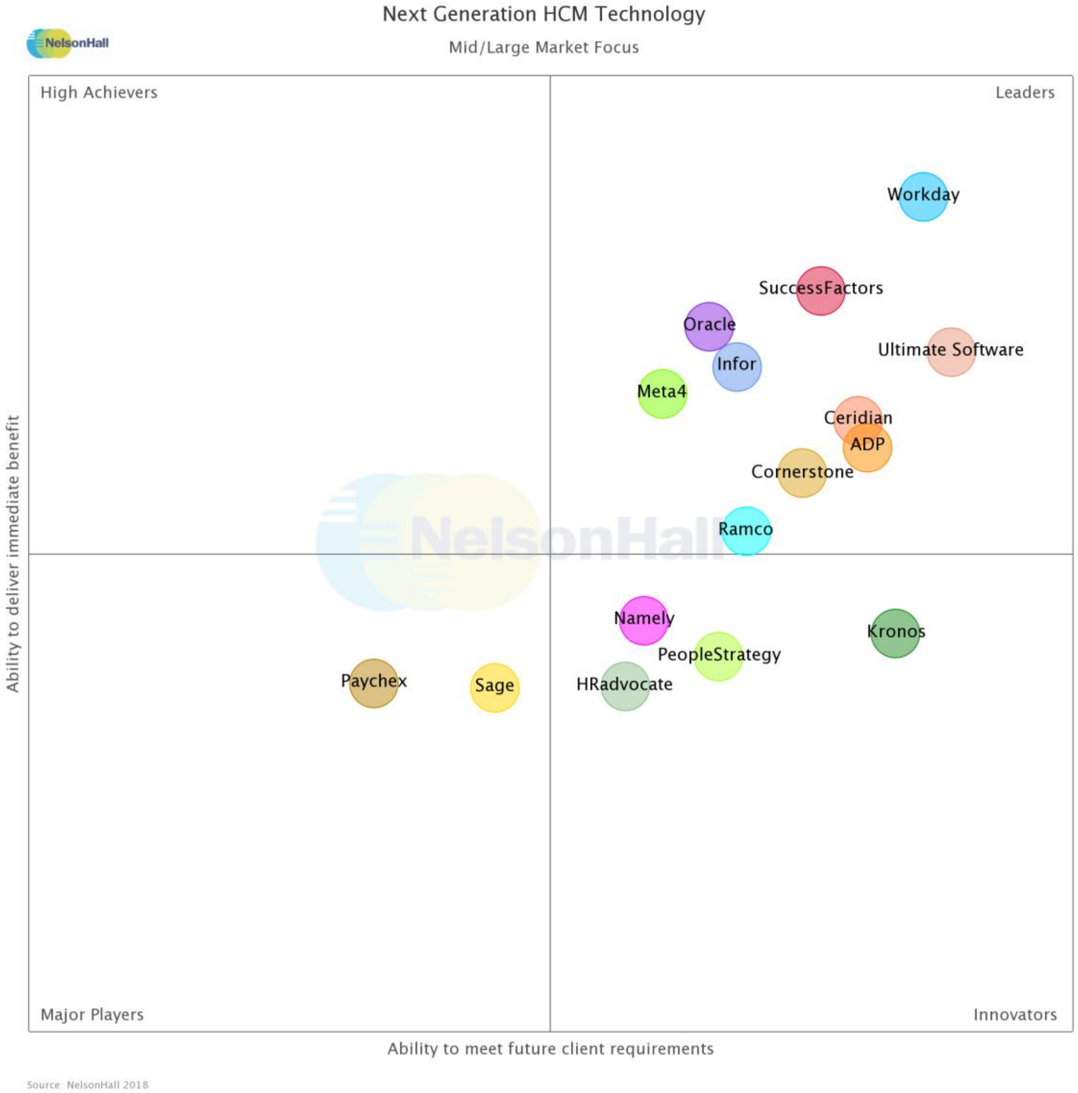
This NelsonHall Vendor Evaluation & Assessment Tool (NEAT) analyzes the performance of vendors offering HCM technology. The NEAT tool allows strategic sourcing managers to assess the capability of vendors across a range of criteria and business situations and identify the best performing vendors with a specific focus either on the small company market (with less than 500 employees) or the mid to large company market (upwards of 500 employees).

Evaluating vendors on both their ‘ability to deliver immediate benefit’ and their ‘ability to meet client future requirements’, vendors are identified in one of four categories: Leaders, High Achievers, Innovators, and Major Players.

Vendors evaluated for this NEAT are ADP, Ceridian, Cornerstone OnDemand, HRadvocate, Infor, Kronos, Meta4, Namely, Oracle, Paychex, PeopleStrategy, Ramco Systems, Sage, SuccessFactors, Ultimate Software, and Workday.

Further explanation of the NEAT methodology is included at the end of the report.

NEAT Evaluation: Next Generation HCM Technology (Mid/Large Market Focus)



NelsonHall has identified CSOD as a Leader in the *Mid/Large Market Focus* market segment, as shown in the NEAT graph. This market segment reflects CSOD's ability to meet future client requirements as well as delivering immediate benefits to HCM technology clients in the mid/large market.

Leaders are vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements.

Buy-side organizations can access the Next Generation HCM Technology NEAT tool here.

Vendor Analysis Summary for CSOD

Overview

Cornerstone OnDemand (CSOD) is a cloud based talent management, learning, and human capital management software provider based in Santa Monica, California.

Cornerstone OnDemand cloud based HCM software offering provides the following modules:

- Core HR suite
- Recruiting suite
- Performance suite
- Learning suite.

CSOD offers a modular approach, so there are no forced modules required for startup; clients can pick and implement any combination to fit their unique needs. Its HCM offering is focused on the transformational elements of HR vs. transactional, and therefore purposely lacks native payroll and benefits.

CSOD positions itself as a "talent-driven HCM provider", and therefore focuses its solution on the transformational vs. transactional elements of HR. The Cornerstone platform can also act as a flexible wrapper or connector to consolidate systems globally, and to connect it to CSOD's various modules based on client needs.

Its offering is globally focused and targeted to the middle, upper middle, and large enterprise client; its ~3150 clients range in size from <1k to >600k employees. Its largest markets are in the U.S., U.K., and France.

Client examples include:

- U.S. and LATAM: First Citizens Bank, Hallmark, Moody's, Turner, Visa, and Walgreen's
- EMEA: BBVA, Casinos Austria, RSA, TDC, Velux, PSA Peugeot-Citroën, Suez, University of York, Virgin Media, Xerox and UnipolSai
- APAC: Commonwealth Bank, ENIL, Hitachi, Nikon, TAL, and The University of Auckland.

CSOD provides four quarterly releases per year; these new feature releases are based on roadmap initiatives but also derived from client and user feedback and voting. The February 2018 release, for example, has 47 new or updated features across all modules; 30 of these were client requested.

CSOD maintains data centers in the U.S. and the U.K., and plans to open new data centers to support growth in Paris and Frankfurt in Spring of 2018. CSOD's data centers maintain an uptime of 99.99% for its platform.

Financials

CSOD is a publicly traded company on the NASDAQ stock exchange under the ticker (CSOD); its fiscal year aligns to the calendar year and therefore ends on December 31.

Its calendar year (CY) 2017 revenues were estimated to be ~$482m, 100% derived from its HCM modules (~82% is derived from subscription services, with the remaining ~18% derived from professional services).

Strengths

- Deep heritage and DNA in cloud computing in the HR space, and an early adopter of SaaS technology offerings
- Pure-play cloud provider with an organically grown platform on a single database, and single code line with no bolt-on acquisitions. It offers a seamless UX and simplified integration landscape, with comprehensive security configuration including compliance and readiness with GDPR standards
- Modular offering allows clients to purchase only those modules and suites required, rather than having to purchase bundled application packages that may include unneeded modules
- Long history as a leading learning and talent management software provider, with well-established client relationships for up-sell opportunities to additional Cornerstone suites and modules (e.g. Workday requires core HR to leverage its other modules)
- Consistent year over year revenue growth, with >50% CAGR since 2007
- Steady, continual investments in its platform (~$60m R&D spend in FY17), with a commitment to HR technology innovation.

Challenges

- Competition from SAP/SuccessFactors and Oracle, which have established on-premise client bases that they can leverage to convert to the cloud; this will be particularly challenging in EMEA, where SAP is based and has a long history of installed ERP clients (not just HCM)
- Lack of brand awareness for Core HR and HCM; while CSOD is widely known for its learning and talent management capabilities, it is somewhat of a late entrant to the core HR space, and not widely known as an HCM platform. This will be particularly significant as it begins to face market leaders such as Workday and SAP SuccessFactors in competitive HCM bids
- Limited stable of referenceable full suite client users, (only ~100 HR suite users), which may deter new clients from considering CSOD as their HCM platform
- CSOD's offering lacks core modules and capabilities which clients often seek in a complete cloud HR solution; with no benefits, payroll, or time and attendance offering, CSOD is dependent on partner offerings to deliver these solutions.

Strategic Direction

CSOD will continue to target middle and upper market organizations seeking cloud based HR technology solutions. It will look to lead with its core strength of learning and talent management solutions, with the intention of growing client module adoption over time. In this same regard, CSOD sees a great deal of opportunity (~$600m) in unrealized potential to up-sell its existing client base on to a broader set of its modules and toward full suite adoption.

With a strong penetration in North America and growing global client base, CSOD is heavily focused on international growth, with EMEA and APAC strategic focus areas moving forward. In EMEA, it has realigned its sales team and added new SVPs of sales to lead the market, and has seen increasing adoption and growing demand since its launch there. It will look to continue this by targeting middle-market EU headquartered organizations and expects to support growth with two new data centers in France and Germany.

CSOD will continue to invest in innovation and enhanced features in its platform modules, with a continual focus on leveraging more machine learning, artificial intelligence, and enhanced analytics and integrations, to deliver a more simplified, guided, and enhanced UX.

Additionally, through the opening of the platform, CSOD expects to expand its Cornerstone Marketplace, creating an additional revenue stream, and to provide clients with more flexibility in adapting tools to complement the capabilities of the Cornerstone platform.

Outlook

Over the coming 12-18 months, CSOD will continue to grow its platform adoption by targeting middle-market and large-market organizations headquartered in North America and EMEA; growth will mostly come from clients adopting its core strength of learning and talent management, with an opportunity for expanded scope over time. Additionally, by targeting its existing client base, CSOD will see broader module adoption.

By targeting the EMEA region, CSOD will see full platform adoption mostly from middle-market organizations seeking a cloud based HCM solution that emphasizes the transformational elements of HR. It may, however, have difficulty gaining clients that require a payroll solution, if third-party or outsourcing solutions are not desired.

With the opening of its platform and expanded Cornerstone Marketplace, CSOD will see greater opportunities for additional revenue and opportunities to provide more value to existing and potential clients. Additionally, the decision to push all implementation of its platform through partner SIs should support an increase in potential clients, as partners now have more incentive to recommend and support CSOD solutions.

NelsonHall does not expect CSOD to make acquisitions to expand its capability or client base, and estimates that CSOD revenue growth for FY18 will be in the range 10%-15%, with revenues increasing from international markets, primarily EMEA.

Next Generation HCM Technology Market Summary

Overview

While SaaS models have eased pressure on buyer business cases, justifying the cost of new systems remains a challenge, particularly with buyers who seek to maximize previous legacy technology investments or are skeptical of the value advanced HCM technology can provide.

Buyers should clearly define their strategic goals, requirements, and expectations and ensure the solution being offered is in alignment with these imperatives; recognize that cost models for cloud applications are different from on-premise platforms; and seek outside advisory in building a proper business case and selecting a platform solution.

Despite cloud HCM solutions becoming widely adopted and seen as the "future" of HR technology, vendors still experience significant challenges with regard to change impacts and overall management, including:

- The perception that the change from new systems will be too impactful to operations or underestimating the level of change associated with cloud transformation
- Lacking the skills or resources to properly build a business case, and manage a major system replacement and the transformation it enables.

Buyers should identify the skills needed and staff the project with dedicated SMEs (leveraging external resources as needed), and develop a comprehensive change management plan including, project management, change impact assessment, training design, communication plans, etc.; seek outside advisory/consulting for overall program and change management.

As the cloud HCM market continues to mature, competition across HCM platform providers is continuing to intensify, and second generation cloud HCM platforms are beginning to gain market share and momentum, as their solutions become more developed. As buyers go to market for "best of breed" solutions, threats from niche HR technology providers are also increasing, threatening market share and growth. Platform differentiation will be key, moving forward, as vendors will need to offer enhanced capability beyond the basics to attract and retain clients, e.g., extensive talent management module capability, prescriptive analytics, and enhanced UX through AI, ML, NLP.

Buy-Side Dynamics

Cloud technology is currently at the heart of digital transformation as businesses of all sizes seek to remain competitive within their industries; thus cloud HCM platforms are in demand as HR leaders seek to leverage technology in line with the business, to transform operating models and support strategic initiatives.

Comprehensive talent management enablers, tools, and insights are increasing in demand as HR leaders are under greater pressure to attract, retain, and develop the talent and skills needed to support the strategy of the business.

Buyers of all sizes are seeking a single global system of record that provides end to end HR capability, driving standardization, consistency, and efficiency across the HR delivery model.

Small market buyers are (by volume) the largest adopters of cloud HCM systems, primarily due to offerings at this level being "simplified: e.g., SaaS based subscription, quick onboarding, low cost to operate.

Many solutions at the small market level are commonly provided through a managed services contract (e.g., platforms by ADP; Ceridian; Namely, etc.)

Middle market buyer adoption is steady and represents the highest value market segment. Growth continues to increase as these organizations scale in size, complexity, and geographical scope; most adopt SaaS solutions as SMBs, and upgrade solutions as their needs advance.

Large market growth is increasing and should intensify over the next five years; with many large corporations on legacy on-premise solutions, the need to upgrade HCM infrastructure is pressing in addition to the pressures to digitize operating models and provide solutions to compete for top talent globally.

Market Size & Growth

In 2017, the global cloud HCM market was estimated to be ~$13.5bn and increasing as buyers of all sizes seek to leverage cloud technology to transform HR operating models to better support strategic initiatives.

Middle market organizations represent the highest value market segment, with demand increasing in the large market segment as many are still operating on-premise solutions.

Manufacturing accounts for ~18% of cloud HCM contracts, with growth expected to come from healthcare, and higher education.

Global adoption for cloud based HCM solutions continues to grow steadily, driven by digital transformation initiatives, a need to support a changing workforce, compete for top talent, and the opportunity to upgrade legacy technology with modern capabilities.

North America is currently the largest buyer of cloud HCM solutions with ~57% of the market, primarily due to early adoption of cloud platforms, and an abundance of HCM technology providers based in the U.S. North America demand will continue, with many large U.S. corporations needing to replace legacy on-premise solutions, primarily SAP, Oracle/PeopleSoft, etc.

Growth in EMEA is increasing for the same reasons as the North American market; vendor targeting is ramping up in the region as a result; e.g., Workday, Sage, Cornerstone OnDemand: all are seeing increased demand.

APAC has become a growth market for multinational corporations, and currently provides a large pool of companies across Asia and Australia for cloud HCM targeting; while LATAM growth has been slower and will be driven by North American and EMEA headquartered companies supporting operations in the region.

Outlook

Over the next five years:

- The global cloud HCM market is predicted to grow at 5.5% CAAGR and will reach $17.6bn by 2022
- North America will continue to lead all geographies in cloud HCM market share, while EMEA and APAC will see increased adoption as more MNCs will seek global cloud transformation
- Growth with large market cloud HCM adoption will escalate beyond 2022, as many buyers in the segment will lose support for on-premise solutions in the next ~10 years
- Talent management modules, suites, and capabilities will see adoption rates in line with core HR modules as organizations of the future become "talent-driven businesses"
- The use of intelligent technologies (e.g., AI, ML, NLP, etc.) will be standard across cloud HCM platforms, with predictive and prescriptive capability the new norm
- Analytic capability will be at the predictive and prescriptive level across cloud HCM platforms with the ability to commingle data from connected business platforms for complete business insights as a standard approach
- "Open" platforms for third-party APIs will be a standard platform approach, with all vendors offering apps through a "marketplace" style model, to extend the capabilities of HCM solutions beyond HR.

NEAT Methodology for Next Generation HCM Technology

NelsonHall's (vendor) Evaluation & Assessment Tool (NEAT) is a method by which strategic sourcing managers can evaluate outsourcing vendors and is part of NelsonHall's *Speed-to-Source* initiative. The NEAT tool sits at the front-end of the vendor screening process and consists of a two-axis model: assessing vendors against their 'ability to deliver immediate benefit' to buy-side organizations and their 'ability to meet client future requirements'. The latter axis is a pragmatic assessment of the vendor's ability to take clients on an innovation journey over the lifetime of their next contract.

The 'ability to deliver immediate benefit' assessment is based on the criteria shown in Exhibit 1, typically reflecting the current maturity of the vendor's offerings, delivery capability, benefits achievement on behalf of clients, and customer presence.

The 'ability to meet client future requirements' assessment is based on the criteria shown in Exhibit 2, and provides a measure of the extent to which the supplier is well-positioned to support the customer journey over the life of a contract. This includes criteria such as the level of partnership established with clients, the mechanisms in place to drive innovation, the level of investment in the service, and the financial stability of the vendor.

The vendors covered in NelsonHall NEAT projects are typically the leaders in their fields. However, within this context, the categorization of vendors within NelsonHall NEAT projects is as follows:

- **Leaders**: vendors that exhibit both a high ability relative to their peers to deliver immediate benefit and a high capability relative to their peers to meet client future requirements
- **High Achievers**: vendors that exhibit a high ability relative to their peers to deliver immediate benefit but have scope to enhance their ability to meet client future requirements
- **Innovators**: vendors that exhibit a high capability relative to their peers to meet client future requirements but have scope to enhance their ability to deliver immediate benefit
- **Major Players**: other significant vendors for this service type.

The scoring of the vendors is based on a combination of analyst assessment, principally around measurements of the ability to deliver immediate benefit; and feedback from interviewing of vendor clients, principally in support of measurements of levels of partnership and ability to meet future client requirements.

Exhibit 1

'Ability to deliver immediate benefit': Assessment criteria

Assessment Category	Assessment Criteria
Offerings: Core Modules	Overall cloud HCM platform Core HR Benefits administration Payroll Time & attendance/WFM Reporting & analytics
Offerings: Talent Modules	Onboarding Talent acquisition/recruiting Compensation Performance management Succession management Learning management
Offerings: Cross-Platform Features	Overall UI/UX Level of integration across modules Ability to support client-specific configurations Extent of mobile capability & features Workflow automation across modules Self-service (ESS/MSS) Social software/collaboration Use of intelligent technologies across modules Extent of APIs & third-party integrations
Scale & Presence	Overall scale of cloud HCM platform N. America EMEA APAC LATAM Small market (less than 500 employees) Mid-market (500 to 15k employees) Large market (over 15k employees)
Delivery	Overall client satisfaction with HCM delivery Partnership approach & service culture Ongoing support Release management Account management & engagement Delivery flexibility Training

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Benefits Achieved	Level of cost savings Improved satisfaction with UX Improved employee engagement Improved self-service Improved HR data accuracy, standardization & consistency Improved reporting & analytics Overall level of satisfaction with HCM platform

Exhibit 2

'Ability to meet client future requirements': Assessment criteria

Assessment Category	Assessment Criteria
Investment in HCM Technology	In overall cloud HCM platform capability In enhancing UI/UX In additional or expanded modules In talent management modules In reporting & analytics In intelligent technology features In integrations
Innovation	Overall commitment to HCM innovation Extent to which clients perceive innovation delivered Perceived suitability of platform to meet future client needs
Market Momentum	Overall HCM platform market momentum

For more information on other NelsonHall NEAT evaluations, please contact the NelsonHall relationship manager listed below.

research.nelson-hall.com

Sales Enquiries

NelsonHall will be pleased to discuss how we can bring benefit to your organization. You can contact us via the following relationship manager:

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