

NEAT EVALUATION FOR KRONOS:

Next Generation HCM Technology

Market Segments: Small Market Focus & Mid/Large Market Focus

Introduction

This is a custom report for Kronos presenting the findings of the NelsonHall NEAT vendor evaluation for *Next Generation HCM Technology* in the *Small Market Focus* and *Mid/Large Market Focus* market segments. It contains the NEAT graphs of vendor performance, a summary vendor analysis of Kronos in HCM technology, and the latest market analysis summary for next generation HCM technology.

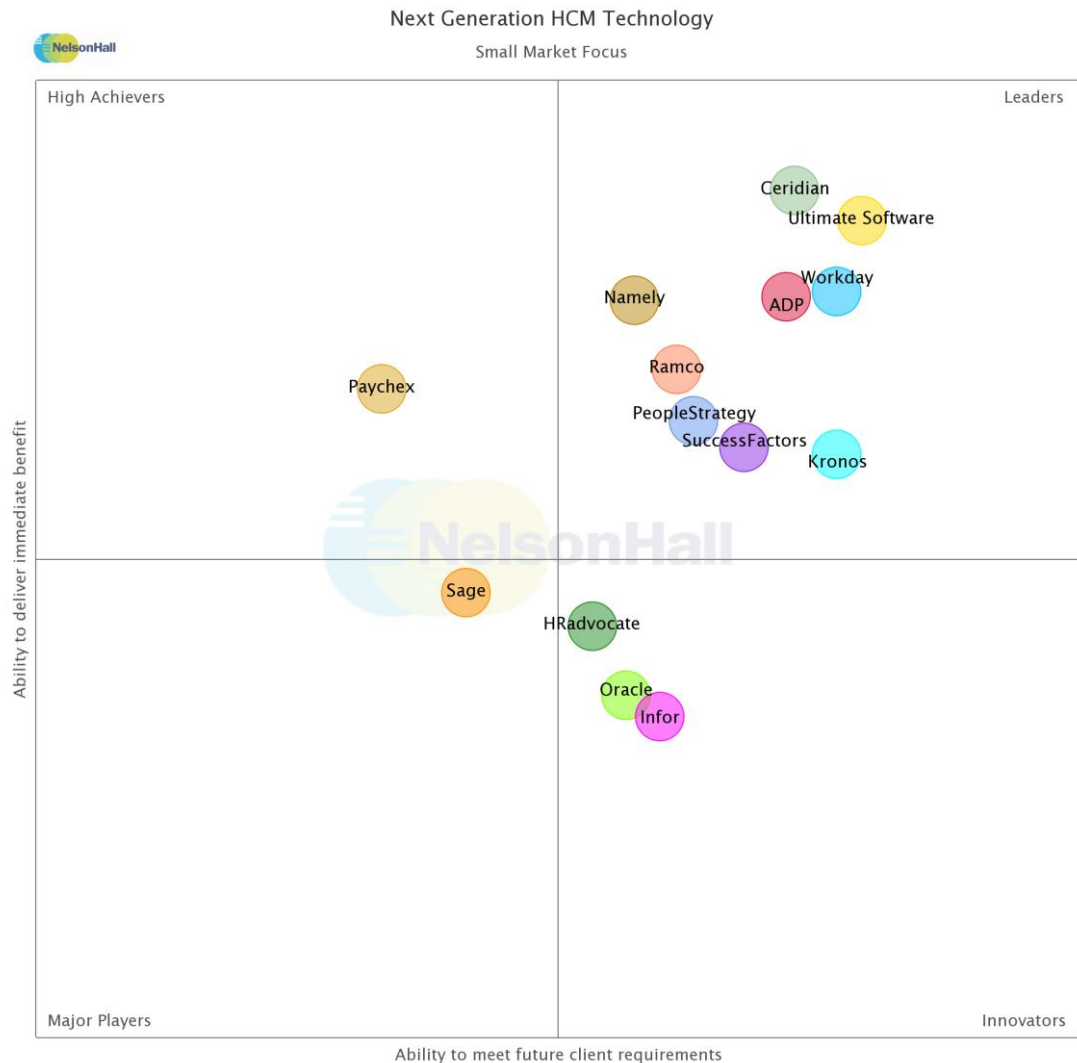
This NelsonHall Vendor Evaluation & Assessment Tool (NEAT) analyzes the performance of vendors offering HCM technology. The NEAT tool allows strategic sourcing managers to assess the capability of vendors across a range of criteria and business situations and identify the best performing vendors with 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 (Small Market Focus)



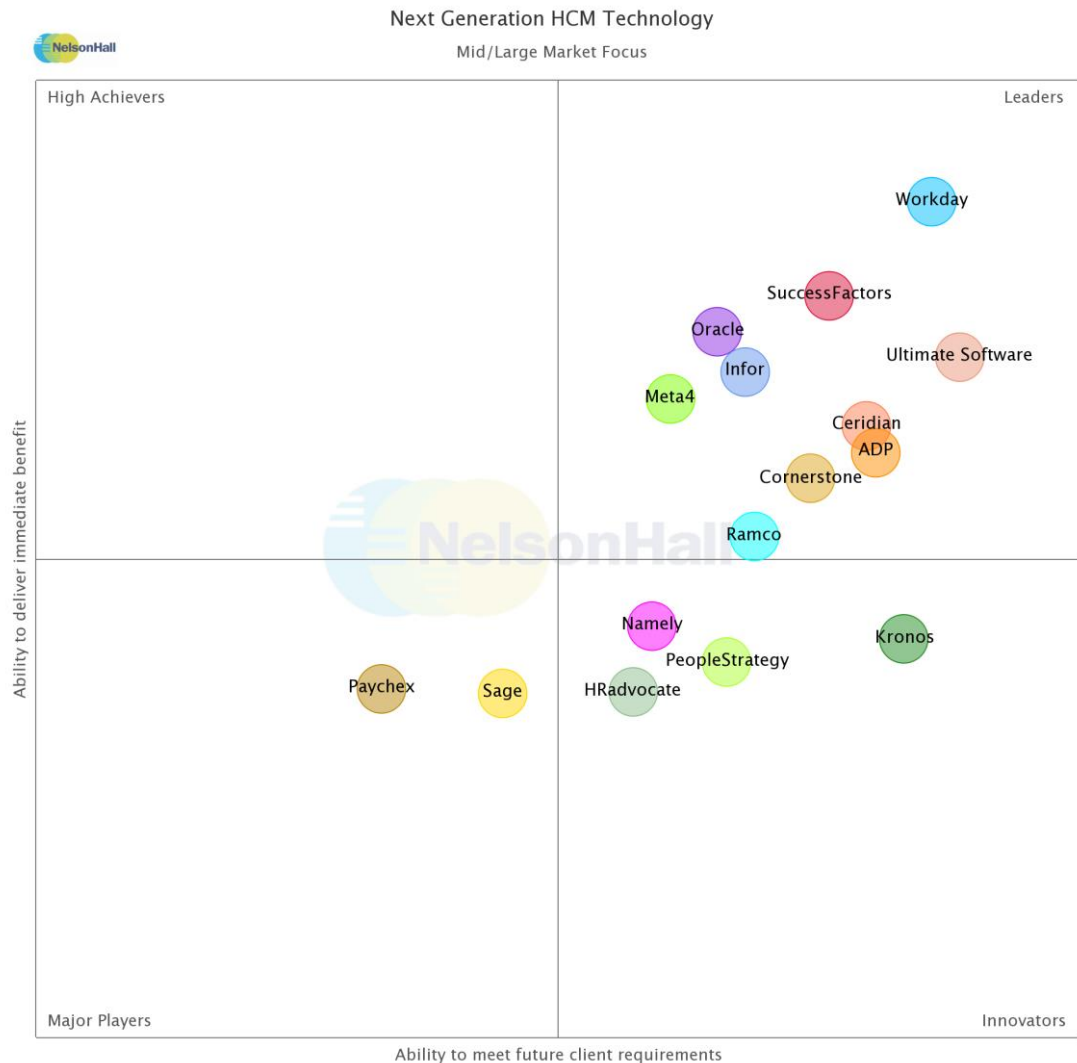
Source: NelsonHall 2018

NelsonHall has identified Kronos as a Leader in the *Small Market Focus* market segment, as shown in the NEAT graph. This market segment reflects Kronos' ability to meet future client requirements as well as delivering immediate benefits to HCM technology clients in the small company 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 (*Small Market Focus*) [here](#).

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



Source: NelsonHall 2018

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

Innovators are 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.

Buy-side organizations can access the Next Generation HCM Technology NEAT tool (Mid/Large Market Focus) [here](#).



Vendor Analysis Summary for Kronos

Overview

Kronos, Inc., headquartered in Lowell, Massachusetts is a provider of human capital and workforce management solutions.

Kronos' Workforce Ready cloud based HCM software offering provides the following modules:

- HR management
- Talent acquisition
- Talent management
- Timekeeping
- Payroll
- Scheduling
- Accruals
- Attestation
- ACA manager
- Leave manager.

Workforce Ready is delivered on a single code line and single instance with all users operating on the same version. In addition to six annual releases, Workforce Ready receives regular maintenance updates and incremental enhancements, typical of any true multi-tenant SaaS application.

Workforce Ready is offered on a modular basis, meaning there is no core bundle required; the top six modules, in terms of adoption, for Workforce Ready are: time and attendance, core HR, leave manager, payroll, performance management, and talent acquisition/recruiting.

Workforce Ready is targeted toward the middle market, ideally those clients with fewer than 10k employees; it currently supports clients from <100 up to >110k employees.

In terms of industries, Workforce Ready as a platform is industry agnostic and can support a range of industry sectors with unique needs. It also has industry-specific templates to support the following industries: healthcare, manufacturing, retail, public sector, and service and distribution. Additionally, the Workforce Ready sales organization is aligned to these specific industries and targets them accordingly. The prebuilt templates can handle the majority of industry nuances and requirements, with limited additional configuration.

Workforce Ready is deployed (with at least one module) by ~2,500 clients, while ~600 clients have a "full-suite" deployment (including core HR, payroll, and time and attendance). Note: The Kronos Workforce Ready Partner Program, a network of reseller partnerships, has ~20k clients using the HCM application.

Workforce Ready has a 94.5% client retention rate and net revenue retention stands at 109%, which is indicative of Kronos' customer-first culture, and investments in resources including a dedicated customer success organization. Workforce Ready customer satisfaction is



measured on a continual basis; in implementation, in flight (in the first 150 days) and again at post-implementation.

Financials

Kronos is a privately held company, however it does make its revenues public.

Its total calendar year (CY) 2017 revenues were estimated to be ~\$1,312m; NelsonHall further estimates that ~9% (~\$114.7m) of Kronos' revenues are derived directly from its Workforce Ready HCM platform subscription and services.

Strengths

- Consistent y/y growth in recurring revenue since launching Workforce Ready in 2012 (89% CAGR through 2017)
- Strong client focus on partnership and retention results; client retention is at 94.5% and revenue retention is at 109%
- End to end HCM platform capability to support hire to retire on a single, unified platform with a single database
- Modular offering allows clients to select and deploy only the modules they require, providing flexibility to add modules as they grow
- Strong global brand with a heritage of innovation and advances in workforce management tools and technology
- Deep pool of clients with lengthy relationships with Kronos, which can be converted to Workforce Ready clients
- Well established partner network of ~300 resellers, and ~20 system integration partners to drive and support growth
- Flexible open platform approach with Workforce Ready Marketplace, which allows for third-parties and clients to connect value added applications, to enable extended use of Workforce Ready with key business applications.

Challenges

- Workforce Ready is still a new entrant to a market dominated by longstanding on-premise platform providers (e.g. SAP and Oracle) and early cloud HCM entrants such as Workday
- While Kronos is well known in North America, and does have presence in most major countries, the lack of brand awareness as an HCM provider may be further limiting globally, compared to leading HCM platforms that dominate the global HCM market
- Lack of payroll capability to support payroll outside of the U.S.; however, Kronos offers third-party payroll connectors and partners to support payroll outside the U.S., in select regions.



Strategic Direction

Kronos is focused on aggressive growth for the Workforce Ready platform (which has had 89% CAGR since FY13).

To achieve this, it will continue to target middle market clients (>500 to 15k employees) as its ideal client demographic. While most of this growth will come from North America, Kronos will also target organizations headquartered in EMEA and APAC. It intends to establish a Workforce Ready sales team in France in 2018, to target organizations in the region; an area of growth for the cloud HCM market in general.

To support sales growth, Kronos will look to its network of ~300 resellers to expand its reach; this would mostly come from the smaller market (<100 employees). Additionally, with a deep pool of clients leveraging its time and attendance tools, Kronos will look to cross-sell Workforce Ready to expand its market penetration, through its existing client relationships. In 2017, ~36% of its Workforce Ready clients came from its existing client base, with ~ 64% representing new logos.

Kronos will continue to invest in Workforce Ready (its FY17 R&D budget was ~\$182m) with a focus on innovation, including expanding beyond its core capability to provide clients with more insights and to provide a simplified, more contextual UX. Key areas of focus for its roadmap and future development include:

- Progression of features that incorporate more machine learning and artificial intelligence, to improve the user experience and drive automation in the context of which the user leverages the system daily; for example a payroll wizard, to guide practitioners in support of payroll processing and transacting
- Incorporating gamification to drive engagement; more real-time data and analysis tools, dashboards, and more predictive analytic capabilities throughout the platform and across modules.

Outlook

Looking forward, Kronos will continue its rapid growth and adoption of Workforce Ready, and will derive its growth primarily from the small market. Through continuous investments in its platform features and functionality, its improved UX/UI, mobile capability; and advanced automation, AI, and machine learning capabilities; Workforce Ready will be able to compete for more of the mid-sized employer market (those with >1k employees). As it continues to gain referenceable clients and relevance as a leading HCM platform option, this should further improve its market presence.

With the addition of expanded sales support in Europe (specifically France), Workforce Ready should see solid traction as a viable HCM option for the SMB and middle market organizations in EMEA, as cloud adoption is quickly growing with multinational organizations in the region.

While NelsonHall does not expect Kronos to make an acquisition in support of expanding Workforce Ready's capability, acquisitions of competing technologies may take place, to gain and convert clients to Workforce Ready (something which Kronos has done very effectively in the past).

NelsonHall expects Workforce Ready revenue growth in the coming year to be in the 20%-25% range.

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	<ul style="list-style-type: none"> Overall cloud HCM platform Core HR Benefits administration Payroll Time & attendance/WFM Reporting & analytics
Offerings: Talent Modules	<ul style="list-style-type: none"> Onboarding Talent acquisition/recruiting Compensation Performance management Succession management Learning management
Offerings: Cross-Platform Features	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Overall client satisfaction with HCM delivery Partnership approach & service culture Ongoing support Release management Account management & engagement Delivery flexibility Training

Continued...



Continued...

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
Innovation	In integrations
	Overall commitment to HCM innovation
	Extent to which clients perceive innovation delivered
Market Momentum	Perceived suitability of platform to meet future client needs
	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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