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## **ROI CASE STUDY KRONOS AKER PHILADELPHIA SHIPYARD**

### **THE BOTTOM LINE**

**Aker Philadelphia Shipyard deployed Kronos Workforce Payroll and Workforce HR to reduce payroll staff, tax filing fees, and payroll error.**

**ROI: 110%**

**Payback: 11 months**

### **THE COMPANY**

Aker Philadelphia Shipyard constructs seagoing container vessels and product tankers. The company has delivered four container vessels and five product tankers since 2003 and has three product tankers under construction. In addition to these vessels, there are an additional nine vessels on the order book occupying the yard until 2011, and options which could occupy the yard until 2015. The shipyard has a workforce of 1,300 which consists of approximately 800 Aker employees and 500 subcontractors.

### **THE CHALLENGE**

Because Aker is only one of less than a dozen shipyards operating in the United States, it has access to a very small population of workers skilled in the shipbuilding trades. As a result, the company's human resources department has three mandates that are critical to the success of the shipyard:

- Minimize labor costs. Because of their scarcity, shipyard workers — who are often hired under costly subcontracting agreements — command strong hourly rates. This means that accurately paying employees and avoiding overpayments is critical to managing costs.
- Create internal skills. In order to create its own pool of skilled workers who would be less costly than subcontracted workers, the shipyard created an internal 4-year apprentice program designed to take workers with little or no experience and train them to be multi-skilled employees.
- Maximize worker safety. Because shipbuilding is so dangerous, the company has the goal of reducing the annual incidence of injuries to zero. In addition to improving worker safety, this has the effect of improving morale and union relations while reducing workers compensation and other insurance costs.

In September 2003, Aker's payroll and human resources team determined that its current human resources application, Abra could no longer support the company in pursuing its organizational objectives. Some of the problems included:

**TOPICS**

Employee Management  
Applications

- System integration. Abra was not integrated with either Kronos Workforce Timekeeper — the company's time and attendance application — or ADP, Aker's payroll provider.
- Data diversity. The company's three HR-related systems were not tightly integrated and none was designated as the system of record for employees. As a result, Aker often had multiple and contradictory accounts for a given employee.
- Employee tracking. Abra did not have a way to help the company track information related to injuries or employee certifications, which was critical, since the company was investing heavily in its training programs in order to have access to internally-trained and certified employees who are less costly than subcontracted workers.

**THE STRATEGY**

Aker evaluated solutions from Kronos, ADP, and Ceridian. Kronos Workforce HR and Kronos Workforce Payroll were chosen for a number of reasons, including:

- Cost. The cost of purchasing and deploying the Kronos modules was lower than the other vendors, and the cost per paycheck issued was also lower.
- Experience. Aker had been using Kronos Workforce Timekeeper since the inception of the company and had been happy with both the functionality of the application, as well as the support and services from Kronos.
- Integration. By deploying the Workforce HR and Workforce Payroll modules from Kronos, the company would have a single-vendor workforce management platform, resulting in one system of record, and only one vendor to deal with when troubleshooting, enhancing, or integrating the platform with other applications.

Because Aker had accumulated three systems of record for HR and payroll, the biggest task in the deployment was data scrubbing. This was done manually by a member of the payroll department with assistance from HR, and took three months to complete, since these people were able to dedicate only a portion of their time to the task on a daily basis. Once the data scrub was complete, one person from HR, two IT staff members, and a Kronos consultant configured the Kronos modules for Aker's union agreement, pay rules, safety record requirements, and training objectives.

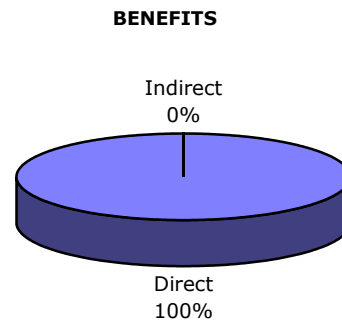
The new modules went live in April 2004 and Aker now uses Kronos to complete the HR and payroll functions for its 800 employees. The application is used by four members of the HR and payroll departments so that in addition to completing payroll, they can use Kronos for tasks related to training, safety, and compliance.

**KEY BENEFIT AREAS**

Replacing ADP and complementing Kronos Workforce Timekeeper with Kronos's Payroll and HR modules enabled Aker to reduce staff, fees, and payroll error. Key benefits from the solution include:

- Reduced fees. Because Aker has more control over when, where, and how taxes are filed, fees had been reduced from an average of \$90,000 per year to an average of \$5,000 per year.

- Reduced staff. Because the company no longer needs to manually transfer data among three separate systems, and ultimately into ADP, one payroll administrator was laid off.
- Reduced payroll error. Because Aker now has greater control over how pay rules are applied in the payroll process — and payroll can be reviewed and verified before checks are cut — payroll error has been reduced by 90 percent, reducing both payroll overpayments and rework.

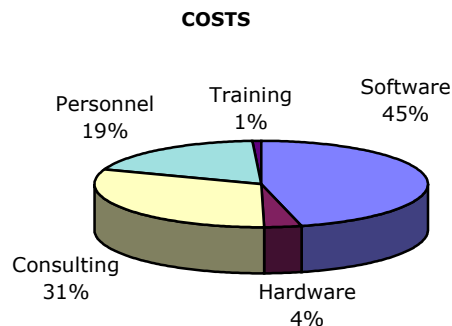


**TOTAL: \$659,869**

- Reduced escrow payments. Prior to the deployment, all accrued tax liabilities had to be set aside in escrow at the beginning of the year, with a diminishing amount set aside as accrued liabilities were paid. Now that Aker completes its own payroll and payment of tax liabilities, escrow payments can be made later in the accrual cycle and for shorter periods of time.

**KEY COST AREAS**

Key cost areas for the deployment were software, personnel, consulting, hardware, and training. Aker purchased Kronos Workforce Payroll and HR for its 800 employees and five user roles so that managers could use the applications for payroll, training records, safety documentation, and compliance. The deployment, which included an extensive data scrubbing project, was completed over a 6-month period and the applications were deployed on one new server. Prior to the go-live date, three people attended two days of formal Kronos training so they could learn how to configure the application and build reports.



**TOTAL: \$163,008**

## **BEST PRACTICES**

One of the main reasons the deployment was successful is that the deployment team aggressively handled its data diversity problems and prevented bad data from perpetuating payroll problems. Prior to the deployment, the company had HR-related data in Abra, Kronos Workforce Timekeeper, and ADP. With no system designated as the system of record, employee records were rarely consistent and correct across all three systems. In eliminating this data diversity during the deployment, the team followed a number of basic best practices that should be applied by other companies with HR-related data diversity:

- Use tools. Kronos provided pre-built tools with designated fields into which scrubbed data was imported from the old systems of record. Using pre-built tools meant that the deployment team didn't have to create a data hierarchy or set of forms from the ground up, and that the data was automatically standardized for use by Kronos.
- Assign responsibility. Although more than one department may generate or consume HR-related data, only one department should be responsible for its accuracy. Payroll was designated as the data owner because it uses it the most frequently and is in the best position to use the data to reduce costs.
- Be patient. Although large CRM and BI deployments sometimes benefit from costly tools that automate data scrubbing and cleansing, HR deployments rarely have a big enough budget for this kind of automation. If data quality problems are anticipated, time and resources should be set aside at the outset of the deployment, so data work doesn't complicate set up or configuration, and the new system has the proper data when it goes live.

## **CALCULATING THE ROI**

Nucleus calculated the costs of software, hardware, consulting, personnel, and training investments over a 3-year period to quantify Aker's total investment in Kronos Workforce Payroll and HR.

Direct benefits calculated included reduced staffing costs, reduced payroll error, fee reductions, and increased returns on investable cash. The benefit from payroll error was based on the reduction in the value of payroll-adjusting checks cut per payroll period. Increased returns on investable cash were based on the reduction in the average amount of cash set aside in escrow for tax liabilities. The benefit from reduced staffing cost was based on the fully loaded annual cost of the payroll administrator who was laid off.

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# DETAILED FINANCIAL ANALYSIS

## AKER PHILADELPHIA SHIPYARD

### SUMMARY

Project:	<b>Kronos Workforce HR and Payroll</b>
Annual return on investment (ROI)	<b>110%</b>
Payback period (years)	<b>0.91</b>
Net present value (NPV)	<b>155,236</b>
Average yearly cost of ownership	<b>54,336</b>

<b>ANNUAL BENEFITS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Direct	0	219,956	219,956	219,956
Indirect	0	0	0	0
<b>Total Benefits Per Period</b>	0	219,956	219,956	219,956

<b>DEPRECIATED ASSETS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Software	60,000	0	0	0
Hardware	0	0	0	0
<b>Total Per Period</b>	60,000	0	0	0

<b>DEPRECIATION SCHEDULE</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Software	0	12,000	12,000	12,000
Hardware	0	0	0	0
<b>Total Per Period</b>	0	12,000	12,000	12,000

<b>EXPENSED COSTS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Software	0	5,000	5,000	5,000
Hardware	5,000	400	400	400
Consulting	50,000	0	0	0
Personnel	30,250	0	0	0
Training	1,558	0	0	0
Other	0	0	0	0
<b>Total Per Period</b>	86,808	5,400	5,400	5,400

<b>FINANCIAL ANALYSIS</b>	<b>Pre-start</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Net cash flow before taxes	(146,808)	214,556	214,556	214,556
Net cash flow after taxes	(103,404)	113,278	113,278	113,278
<b>Annual ROI - direct and indirect benefits</b>				<b>110%</b>
Annual ROI - direct benefits only				110%
Net present value (NPV)				155,236
<b>Payback (years)</b>				<b>0.91</b>
Average annual cost of ownership				54,336
3-year IRR				95%

### FINANCIAL ASSUMPTIONS

All government taxes	50%
Discount rate	15%