

ACQUISITION STRATEGIES

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Spotlight on acquisitions in HRO

Whilst most outsourcing contracts contain provision for change of ownership covering both client and vendor organisations, it remains likely that many organisations will find themselves in situations where their outsourcing vendor has either been acquired or is itself acquiring. This will of course have a potential impact on the process models underpinning their outsourced services.

Accordingly, this article considers the impact of M&A activity on outsourcing, providing an analysis of the levels of outsourcing-related M&A activity, the types of M&A activity, and the implications of each of the various types of M&A activity for the clients of the vendors involved. In particular, this assessment of M&A activity on outsourcing is considered from the viewpoint of the HRO industry.

Clearly, there is currently a high level of acquisition activity within the BPO industry and the HRO industry is particularly active in this respect. Indeed the level of HRO-related acquisition activity has increased over the past two years, both in absolute terms and relative to the BPO industry as a whole.

So what is the pattern of acquisition activity in HRO and why is this happening? Essentially, there are three major types of M&A activity taking place in the HRO market:

- Market consolidation with major industry players acquiring one another, reducing the level of client choice in a mature market. Examples here include Aon acquiring Hewitt, ACS, a Xerox Company acquiring ExcellerateHRO, and NorthgateArinso acquiring Convergys HR Management
- Vendors broadening the breadth & depth of capability of their HRO service portfolios. Examples include ADP acquiring Workscape and The RightThing
- Vendors acquiring geographic capability to enter new, frequently emerging, geographic markets.

In terms of HRO-related acquisitions over the past two years, the pattern of activity has shifted from a high emphasis on market consolidation in 2010, through an increasing emphasis on portfolio development, to high emphasis on both portfolio development and geographic expansion in 2011.

Each of these has differing implications for client organisations. Clearly market consolidation may have the greatest implications for clients and may imply a significant change in operating model in the medium-term. The major recent acquisitions of this type are shown in Exhibit 2:

Aon's acquisition of Hewitt made it the largest human resources consulting and outsourcing player globally. In addition to the global scale and scope and combined strengths of the consulting and benefits outsourcing units, Aon picked up significant new complementary cross selling opportunities for its insurance business.

Aon Consulting had \$1.3bn of revenues in fiscal year 2009 and Hewitt had \$3.0bn: the combined entity will be triple the size of Aon Consulting. In many ways this formation of Aon Hewitt is a reverse acquisition. Accordingly the threat of radical process change to Hewitt multi-process HRO and benefits administration clients is relatively low. The deal continued the consolidation trend across the benefits consulting and outsourcing market, other recent M&A activity including Towers Perrin and Watson Wyatt merging to form Towers Watson.

Also in this category, ACS, a Xerox Company, acquired ExcellerateHRO (EHRO) from HP, to integrate EHRO into its own service lines, and this move potentially threatens a higher level of process change for EHRO clients in the medium-term. Both units had significant benefits administration practices, payroll, and multi-process HRO outsourcing services. EHRO and ACS each bring marquee clients along with growing bases of midmarket clients, especially in benefits administration and ACS has much work to do to stabilize the client base and integrate the EHRO services into its portfolio.

Thirdly, NorthgateArinso acquired the HR Management unit from Convergys, acquiring Convergys' global HR service delivery assets and client portfolio. Convergys had recently completed restructuring its underwater deals with two major clients and had negotiated renewals or extensions for many of its most visible deals to remove any outstanding liabilities and commitments. While this acquisition presents some medium-term choices for former Convergys clients who have highly customised individual instances of SAP, they will potentially benefit from NorthgateArinso's provision of a more certain future comprising a HR outsourcing roadmap and ongoing investment in HRO technology and processes.

Exhibit 2 provides examples of HRO-related acquisitions driven primarily by a need for portfolio development.

ADP has been particularly active in this type of acquisition moving beyond its traditional payroll stronghold to strengthen its capabilities in benefits administration and talent management

in support of its multi-process HRO service development. The RightThing brings end-to-end RPO capabilities including sourcing, onboarding, employment branding, etc. while ADP has strengthened its ability to compete for benefits outsourcing within large and complex organisations with the acquisition of Workscape. In both these cases the clients of the acquired organisations are likely to face little process change; any process change, though hopefully for the better, more likely to be experienced by clients of the acquiring vendor, and this is characteristic of acquisitions driven by the portfolio development motive.

Exhibit 3 provides examples of HRO-related M&A activity prompted by a need for geographic expansion.

The main impact of acquisitions of this type on North American clients is to provide enhanced support for their ability to operate more globally, typically with improved support for emerging markets.

Exhibit 1: HRO Market Consolidation

Year	Acquiring Company	Acquired Company	Reason for Acquisition	Service
2010	Aon	Hewitt	To become market leader in benefits administration	Benefits Administration
2010	NorthgateArinso	Convergys HR Management	To expand North American presence	Multi-Process HRO
2010	ACS, a Xerox Company	ExcellerateHRO	Acquisition of North American MPHRO clients	Multi-Process HRO
2011	Randstad	SFN Group	To increase presence in North America	Staffing/RPO

Exhibit 2: Portfolio Development

Year	Acquiring Company	Acquired Company	Reason for Acquisition	Service
2011	ADP	The RightThing	Add RPO capability into multi-process HRO offerings	RPO
2011	GP	RWD Technologies	Strengthen capability in petroleum, manufacturing & automotive sectors	Learning Services
2011	Lumesse	Edvantage Group	Strengthen learning capability within talent management offering	e-Learning
2010	Kenexa	The Center for High Performance Development	To strengthen management training capability	Learning Services
2010	GP	PerformTech	To strengthen learning services for US Government	Learning Services
2010	ADP	Workscope	To strengthen benefits administration portfolio & client base	Benefits Administration

Exhibit 3: Geographic Expansion

Year	Acquiring Company	Acquired Company	Reason for Acquisition	Service
2011	GP	Beneast Training	To increase regional presence in UK	Learning Services
2011	Adecco	Drake Beam Morin	To strengthen outplacement services outside US	Outplacement services
2011	ManpowerGroup	REACH HR	To offer HRO services in China	HRO
2011	GP	Communication Consulting	To increase learning services presence in China	Learning Services
2010	NorthgateArinso	Neller	To expand Asian market presence	Payroll services

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FOCUS ON SERCO'S ACQUISITION OF INTELENET

The Serco acquisition of Intelenet last year has been an important milestone for the global BPO industry and highlights the trend of investor interest in the international BPO market. While acquisitions could be done for various reasons – acquiring scale, capabilities, access to new geographies, consolidation, they reflect an important constituent of the larger growth strategy.

For Serco, an FTSE 100 international service company, the Intelenet acquisition is strategic as it broadens and diversifies its portfolio, exposing it to increased global opportunities, therefore supporting its vision for sustained growth and creating a resilient business in the private sector. The Intelenet buy-out is in line with Serco's strategy that is focused on driving organic growth, supplemented by strategic acquisitions of skills and capabilities to enter new markets and sectors where Serco sees strong opportunities to enhance its growth and margins. Intelenet's high value capabilities and customer base, together with its economies of scale, means Serco can access new markets and strengthen its existing propositions. The combined entity is thus able to provide end-to-end BPO solutions and address a wider market.

Formed as a fourth division within Serco, the combined BPO related operations has 40,000 employees providing services across seven countries. With these economies of scale and capabilities, Serco is strongly placed to provide existing and new customers with a broad range of high quality end-to-end services. The combination of Intelenet with Serco's existing BPO-related operations marks a significant

step change in Serco's global capability and capacity to deliver value-adding services across the world serving verticals such as Banking, Financial Services & Insurance; Travel, Hospitality & Transport; Telecommunications; Healthcare; Retail & Utilities and Public Sector. Strategically the new BPO division will now allow Serco to bid on a wider range of larger contracts across the global BPO market.

Intelenet is also a major BPO provider in the India domestic market, which combined with Serco BPO currently, has a market leading position. It is focused on the biggest and fastest growing market verticals including BFSI, Telecoms (in India), Travel and Healthcare thus giving it a dominant position in the fast growing Indian BPO market.

Whilst, disciplined mergers and acquisitions continue to be a strategic tool to propel growth and enable business transformation across the globe, integration is an extremely important part for any mergers and acquisitions to succeed. For example with such a large scale acquisition both companies meticulously planned integration in a way that did not distract teams but at the same time standards and processes were quickly aligned. More importantly cultural integration was a key component, which is eventually leading to significant global opportunities for Intelenet employees. There is a tacit assumption that softer aspects of integration take time, but disciplined communication and engaging with all employees are some aspects which the Intelenet team never lost focus on.