

Geographies of Temporary Staffing Unit

Working Brief 31

Merger and Acquisition in the Temporary Staffing Industry 2007

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Introduction

The growth in levels of temporary employment in many existing, and newly emerged, labour markets has fuelled the growth of the formation and geographical expansion of temporary staffing firms, and in the range of services offered. Earlier Working Briefs (most recently Working Briefs 29 and 32) have charted the top 20 transnational firms and their geographical expansion. Revenue growth in temporary staffing firms has traditionally been gained through both organic expansion and market consolidation, and through merger and acquisition. As we have argued previously, temporary staffing firms have all utilised both methods but with some favouring one over the other (see Working Brief 27). However, across the temporary staffing industry in general, 2007 has seen a marked increase in the number and size of mergers and acquisitions globally. This Working Brief details, and makes discussion of, the mergers and acquisitions made by the top 20 transnational staffing firms this year.

Merger & Acquisition Activity

The advantages and disadvantages of merger and acquisition for temporary staffing firms over organic growth can be characterised thus:

- Advantages: Instantly increased revenues; economies of scale through restructuring and centralisation of back-office functions; increase in branch network; consolidation in key markets where geographies overlap; new market entry where footprints are different; increased brand impact; ability to service new and existing clients across a greater range of geographies and/or specialisms.
- Disadvantages: Cost of purchase/merger and other associated costs such as possible re-branding and restructuring; cultural differences with acquired firm; management of new subsidiaries.

Table 1 charts the mergers, acquisitions and dispositions made by the top 20 transnational staffing firms in 2007. Clearly, the majority of the activity concerns the large firms acquiring smaller operations in specific territories. However, one large acquisition has been made this year that will alter the top 20 transnational firm rankings for 2007:

- Randstad’s acquisition of Vedior. In 2006 Randstad’s revenues overtook those of Vedior for the first time (€8,186.10m or \$10,806.72m vs €7,660.00m or \$10,112.20m). The combined revenues of Randstad in 2008 are expected to send it to second place in both the top 20 total revenues and top 20 transnationality rankings, ahead of Manpower. If 2006 revenues were combined the top 3 firms would have revenues as shown:

1. Adecco	\$26,953.0m
2. Randstad & Vedior	\$20,918.3m
3. Manpower	\$17,562.5m ¹

However, it is clear that an acquisition does not always bring 100% of existing revenues to the new firm as consolidation and restructuring occur.

Other key acquisitions include:

- In 2006 UK-based Glotel appeared at 19th on our top 20 transnationality ranking. In July 2007 it was acquired by rival UK-based firm Spring Group. Whilst this group is larger than Glotel, it’s geographical focus has been squarely on the UK. Through this acquisition Spring Group has acquired an extensive network of operations in 8 new markets (see Working Brief 32).
- In Japan, the Goodwill Group purchased the operations of Crystal Co. This acquisition takes them to the number one position in the Japanese market above Staff Service and Tempstaff.
- Despite a long history of organic revenue and geographical growth, Kelly Services made a number of strategic acquisitions this year (cf. Working Brief 23). This supports the suggestion that since 2000 Kelly Services has been actively pursuing an internationalisation strategy (see Working Brief 32 for more details). Kelly Services have most recently been focussing on their Asian presence, with the acquisition of P-Serv (Hong Kong, Singapore and China) and final purchase of 100% of their joint venture with Tempstaff (Japan) both expanding and consolidating their presence. The acquisition of Talents Technology (Czech Republic and Poland) extended their geographical footprint in Central and Eastern Europe.

¹ Exchange rate fluctuations will affect the comparison of these European and US-based firms. The relatively weak dollar results in the conversion of annual figures in Euros into US dollars to seem more substantial than local currency figures reveal.

Table 1: Top 20 Transnational staffing firms: merger, acquisitions and dispositions, 2007

Date	Merger/acquisition details	Location(s)	Value
December	Randstad purchases Vedior	The Netherlands	€3.3bn (\$4.84bn)
November	Spherion acquires Technisource. 34 branches with estimated 2007 revenue of \$265m.	US	\$140m
November	Vedior acquires 70% of GULP Information Services and GULP Consulting Services, temporary IT recruitment specialists with 4 offices servicing clients in Germany, Austria and Switzerland. Annual sales up to 31 December 2006 were €40.9m.	Germany	Undisclosed
November	Vedior acquires B2B Workforce Inc, a US-based provider of e-Business enterprise applications personnel and consulting service. Annual sales up to 31 December 2006 were \$79.0m.	US	Undisclosed
November	Harvey Nash acquired 49.9% of US-based TechDiscovery, an IT solutions business, to form a strategic alliance. The remaining 50.1% is under option for 3 years.	US	Initial £0.7m, up to £1.0m deferred.
October	Skilled Group acquires Hudson Highland's Australian trade and industrial unit. The segment generated revenue of \$44.4m and operating income of \$2.3m in 2006.	Australia	\$3m
October	Kelly Services acquires access AG, a specialized recruitment services company headquartered in Germany and with operations in Austria. Estimated full year 2007 revenue is approximately \$15 million.	Germany & Austria	Undisclosed
September	Adecco acquires a further 15.7% of DIS. Holding now totals 98.4%.	Germany	€219m
September	Spherion acquires Todays Staffing from CDI Corp. Todays reported revenue of \$80.5 million and operating profit of \$1.8 million for the first six months of 2007.	US	\$40m
September	Randstad acquires Team BS, a German staffing company primarily servicing the pharmaceutical, chemical, consumer goods and automotive industries. Expected 2007 revenue of Team BS is approximately € 55 million.	Germany	Undisclosed
August	Badenoch & Clark (a UK subsidiary of MPS Group) acquired Judd Farris, a global provider of property recruitment professionals	UK	Undisclosed
August	Harvey Nash acquires Rescon IT, an Irish IT recruitment and solutions business. 2006 revenues were €7.2m with profits before tax of €0.8m.	Ireland	Total consideration of €7.7m
August	Harvey Nash and Swedish-based Alumni AB merge. The merger brings total executive consulting revenues in 2007 to an expected €30m.	UK & Sweden	-
July	Vedior acquires Think Resources Inc., a provider of engineering and technical professionals in the US. Annual sales up to 31 December 2006 were \$46.5m.	US	Undisclosed
July	USG People acquires Spanish-based Secretaria Plus, a supplier of Spanish-speaking secretaries. Expected turnover for 2007 is €3.3m.	Spain	Undisclosed
July	USG People acquires Geko Zeitarbeit, a German supplier of temporary technical	Germany	Undisclosed

July	personnel. 2006 revenues were €25m. Proffice acquires Norwegian health care staffing company Medifact. Turnover in 2006 was approx. NOK 64m with an operating margin of approx. 10%.	Norway	Maximum purchase price NOK 55m
June	Spring Group acquires Glotel	UK	£27.2m (\$54.4m)
June	Adecco acquire Tuja (staffing for automotive, engineering and aerospace industries)	Germany	€800m (\$1bn)
June	Select UK (Vedior) acquires 80% of Calibre Recruitment Ltd, a leading hospitality staffing specialist. Calibre achieved (audited) annual sales of £8.2 million (€12.1 million) up to 28 February 2007.	UK	Undisclosed
June	Randstad acquires Swiss staffing company Job One, operating from 23 branches with a focus on the sectors technical, healthcare, commercial and construction. 2006 revenue amounted to € 44m.	Switzerland	Undisclosed
June	Corporate Services Group acquires a Bristol based domiciliary care business, Chrysalis Community Care Limited.	UK	Undisclosed
June	Harvey Nash acquires SkillRoad Systems Ltd, an offshore development company.	Vietnam	Maximum consideration of \$1.8m
May	Kelly Services acquires P-Serv, a company specializing in temporary staffing, permanent staffing, outsourcing and executive search with operations in China, Hong Kong and Singapore. Estimated full year 2007 revenue is approximately \$12 million.	SE Asia	Undisclosed
May	USG People acquires Tempsys SA which holds the French staffing organisation Multicompta. Multicompta supplies temporary staff in the financial and accounting field. Revenues in 2006 were €13m.	France	Undisclosed
May	Medacs (Corporate Services Group's medical staffing business) acquires Translocation Ltd, a UK-based supplier of permanent medical staff.	UK	Undisclosed
May	Beeline, the workforce solutions business unit of MPS Group, Inc. , acquires Employer Services Corporation (ESC), a recruitment process outsourcing business.	US	Undisclosed
April	Randstad acquires an additional 23% of Talent Shanghai following 47% acquisition in May 2006. Revenues in 2006 were €50m.	China	Undisclosed
April	Randstad sells RNA Communications, active in design and maintenance of telecom and power networks, to Byers Engineering Company, US. 2006 revenues were €20m (\$25m).	US	Undisclosed
March	Vedior acquires 70% of Major Players, a leading provider of marketing/media and creative recruitment services. Major Player annual sales for year ended 31 December 2006 were £10.0m.	UK	Undisclosed
March	Randstad's Dutch subsidiary Tempo-Team has acquired Thremen BV, a supplier of administrative temporary labour. Revenues in 2006 were €19m.	The Netherlands	Undisclosed
March	Kelly Services acquires CGR/seven LLC, a creative services staffing firm located in New York. Estimated full year 2007 revenue is approximately \$8 million.	US	Undisclosed.

March	Kelly Services acquires the remaining shares of Tempstaff Kelly, a joint venture originally created with Sony Corporation and Tempstaff, the second largest staffing company in Japan. Tempstaff's 51% share was purchased resulting in Kelly Services owning 100%. Full year 2007 revenue is estimated at \$40 million	Japan	undisclosed
March	Kelly Services acquires Talents Technology (which consists of Talents Polska and Talents CZ), a permanent placement and executive search firm with operations in the Czech Republic and Poland. Estimated 2007 revenue is \$2.4 million. The acquisition increases Kelly's global footprint to 32 countries and territories.	Czech Republic & Poland	Undisclosed
March	MPS Group acquires The Paladin Companies Inc., a US recruitment business focussed on marketing, advertising and creative positions.	US	Undisclosed
February	Kelly Services sells its Home Care Business unit to ResCare Inc. The Home Care Services business unit reported revenue of \$59 million for the full year of 2006.	US	Cash proceeds of \$12.5m
February	Hays acquired James Harvard, a specialist recruitment business focused on pharmaceutical and IT financial services sectors. 2/3rds of business in UK, remainder in Japan. 2006 revenues were £10.7m and operating profit of £3.0m.	UK and Japan	Initial £24m and estimated £20m payments over 3 years.
January	Special Counsel, the legal staffing unit of MPS Group , acquires the legal placement, staffing and outsourced document review units of the Esquire Group.	US	Undisclosed
January	The Goodwill Group acquires Crystal Co. (Japan). Revenues for 2006 were \$1.6bn and an estimated \$5.5bn for Goodwill and Crystal respectively.	Japan	Undisclosed

Source: Company press releases and annual reports, www.reuters.com

- Adecco continued its acquisition of German-based DIS, with shares now totalling 98.4%. Adecco traditionally purchases 100% of its acquisitions (see Working Brief 19) but the size of DIS made this more difficult.
- Hudson Highland reduced their activities in Australia by selling their trade and industrial segment to Skilled Group, already the largest staffing firm in the market (see Working Paper 4: Table 2).

Conclusions

This year has witnessed an unprecedented level of merger and acquisition as the world's largest firms seek to consolidate their positions and meet the challenges of competition across the industry. The motivation for acquisitions in particular appear to be driven by 3 main motivations:

1. Consolidation in home market. Whilst expanding their international presence is an integral part of most firm strategies, there is still a drive to strengthen firm presence in home and core markets i.e. Corporate Services Group and Chrysalis and Translocation; MPS and ESC and Paladin.
2. Consolidation in existing markets. Firms seek to strengthen their presence in markets with strong growth rates i.e. Germany (Adecco and DIS and Tuja; Vedior and GULP; Kelly Services and access AG for example) and Japan (Kelly Services and Tempstaff)
3. Geographical expansion. Firm use acquisitions to enter new markets which may be highly profitable. The majority of acquisitions shown in Table 1 are dominated by this motivation.

In addition, a counter process is also occurring whereby the leading global firms are disposing of activities that they no longer consider to be 'core' to their business. This year alone, many transnational firms have disposed of a range of 'non-core' functions, for example, Hudson Highland in Australia and Kelly Services' disposition of their home care segment in the US. It is clear that there is still sufficient room for further consolidation and restructuring of firm activities in the global temporary staffing industry. Rumours have been circulating in the staffing industry and investment community that Monster may be acquired (Yahoo is the suggested purchaser) but little has come of this suggestion, and that Adecco is looking to acquire a specialist firm such as Hays or Michael Page. While there may be little or no substance to such rumours, but it is clear that the trend towards further consolidation will continue in the short-term.

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