

Staffing industry ripe for M&A wave

Brendan Flood, executive chairman of Staffing 360 Solutions, discusses the current mergers and acquisitions (M&A) market in the US and the UK, and reveals how the company's model spells success

Talent acquisition is, and always has been, a uniquely complex task. Given that we're talking about human talent, the practice requires equal parts art, science, industry knowledge, and good luck. It's fair to characterise our industry as a long-term necessity. Everybody, everywhere, uses us.

Yet in the midst of incredible technological advances, growing markets and a shrinking world, the staffing industry remains fragmented. With more than 32,000 staffing companies in the US alone, 15,000 generate less than \$20 million in sales. And outside of the world's top 10 staffing firms, no other company has greater than one per cent market share. In the UK, there are now 24,000 staffing firms, the vast majority of which have less than 20 employees.

An increasing number of staffing companies are beginning to see the value nestled in the fissures of these many industry piece parts. With staffing seeing near universal growth across global industries, the time is right for M&A strategy to bring tremendous value by making us more competitive, capturing additional cost savings, and producing better performance for clients. Consolidation also provides advantages like economies of scale in operations management, candidate management and marketing.

M&A drive

In the US, 105 staffing industry M&A transactions were reported in the first nine months of 2017 alone. This strong M&A activity, which has been gaining steam since 2015, is motivated by two external drivers: rising employment and technological innovation. Within this industry, where the US goes, the UK is soon to follow.

According to the US's Bureau of Labor and Statistics, the number of people filing for unemployment benefits in October 2017 fell to a four decade low. At 4.2 per cent, the current American unemployment rate is as low as it was during the Eisenhower administration. For the average company, that means a highly competitive market for workforce talent. Atop this, the last decade has seen sweeping innovations in technology and data analytics. As companies across the spectrum continue to invest, they will experience a constant need for talent that understands how best to field and manage such technologies.

At Staffing 360 Solutions, we've developed our own buy-and-build model that's taken us from just \$5 million in annual revenues to over \$265 million since 2013. We recently closed new acquisitions in both the US and the UK, adding \$85 million, of this total, to our top line. But growing for the sake of growing isn't a viable strategy for long-term success in this competitive industry. Any acquisition strategy must be based on thoughtful



direction informed by both business objectives and cultural values. At Staffing 360, we see two North Stars:

Integrate intelligently

Whether it's IT, engineering, finance & accounting or industrial, staffing firms aren't successful solely because of their service market, but rather due to the internal approaches capitalising on that market. When acquiring any firm, it's vital to conduct due diligence, and explore the structure, people and processes that resulted in the strong bottom line that attracted suitors in the first place. The acquired company must be allowed to retain these prosperous elements even when integrating some back office functions.

We believe such preservation of continuity extends to the brand. Brand equity is hard to build, so we leave in place the brand – and implied customer reputation – of acquired companies. Not only does that practice make transitions culturally smoother, it can also open doors to other markets and cross-selling opportunities.

Diversify to stabilise

Establishing a stable revenue stream is a key motivation for any M&A approach. But the revenue of each staffing firm is only as healthy as the industry it serves. In order to develop a dependable revenue stream, firms should broaden their palette and diversify their customer base. If, for example, a firm specialising in IT services was looking to expand through acquisition, management might consider targeting staffing firms specialising in accounting and finance.

At Staffing 360, we serve IT services, accounting and finance, engineering, administration and light industrial. During all of our transactions, we measure how each firm can contribute to these pillars and the stability of our revenue stream. As the staffing industry's acquisitive trend continues to build, consideration of the strategic elements of smart M&A can serve both acquiring and acquired companies, while improving service to customers and the fortunes of our industry.