

ACQUISITION STRATEGIES

In this focus, **Kerry Hallard** looks at the major acquisitions of the year, what's driving them, and how this activity is re-shaping the outsourcing landscape.

A good time to buy or sell?



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You'll have read it many times already in this Yearbook, as well as in any business title you pick up – fears of a double-dip recession have impacted growth – and the outsourcing market looked to be no exception. 2011 was not as buoyant a year as was originally hoped, until Q4 when it ended on a real high.

The slowdown in Europe, compounded by on-going uncertainty, made for a frustrating time in outsourcing, as deals took a lot longer to close. This in itself has driven and will continue to drive merger and acquisition activity, as companies battle to win contract share in the burgeoning outsourcing industry.

Both 2010 and 2011 were hot-beds in acquisition activity in the outsourcing space. In the BPO area alone, there were 81 acquisitions in 2011, 40% of which were HRO-related*. Analytics outsourcing has caused the latest gold rush.

Levels of BPO and HRO-related acquisition activity

Year	Total HRO-Related Acquisitions	Total BPO-Related Acquisitions	Proportion HRO-Related
2011	32	81	40%
2010	37	91	41%
2009	17	53	32%
2008	22	76	29%
2007	28	99	28%
2006	27	109	25%
2005	29	123	24%
2004	21	96	22%
2003	10	67	15%
2002	6	33	18%

* Data according to NelsonHall

WHO ACQUIRED AND WHO WAS ACQUIRED?

February: KPMG announced the acquisition of advisory firm EquaTerra in order to provide a full life-cycle of capabilities for companies seeking to reduce costs and improve effectiveness and efficiency.

March: AT&T acquired T-Mobile USA from Deutsche Telekom in a cash-and-stock transaction currently valued at approximately \$39bn. Indian outsourcing vendors like Infosys, Cognizant and Tech Mahindra are set to gain new projects worth hundreds of millions from this acquisition.

March: Serco Group acquired The Listening Company, a UK based provider of outsourced customer contact centre services to both private and public sector organisations, for an initial cash consideration of £42.1m.

April: Genpact acquired Headstrong Corporation to gain critical domain and technology expertise in the complex capital markets industry vertical for \$550m.

May: Serco acquired Intelenet, a leading BPO provider, for up to £385m. This acquisition is in line with Serco's strategy which is focused on driving organic growth, supplemented by strategic acquisitions of skills and capabilities to enter new markets and sectors.

May: Autonomy Corporation plc, a global leader in infrastructure software, announced its acquisition of selected key assets of Iron Mountain's digital division including archiving, eDiscovery and online backup for \$380m.

May: ExlService Holdings, Inc. a leading provider of transformation and outsourcing services, announced an agreement to acquire Outsource Partners International, a leading global provider of finance & accounting outsourcing services. With this acquisition, EXL establishes itself as one of the leading third-party service providers in global F&A outsourcing.

July: Cognizant acquired CoreLogic India for \$50m cash, to provide end-to-end business process and analytics solutions across the mortgage value chain.

July: The Capita Group Plc announced its acquisition of Ventura, a customer contact specialist for a cash consideration of £65m. Ventura, the trading name of Club 24 Ltd, is the third party customer services management arm of Next plc.

July: Atos acquired Siemens IT Solutions and Services, the holding company of all Siemens IT activities. A €5.8bn contract was awarded by Siemens to Atos as a part of this acquisition.

August: CSC acquired iSOFT Group Limited, one of the world's largest providers of advanced healthcare IT solutions. This added 3,000 global employees and a robust set of clients in new and emerging markets.

September: The Capita Group Plc acquired the private sector division of Vertex for £40.5m.

October: ADP, the HR and payroll services specialist, acquired RightThing to move beyond payroll and into RPO.

October: Oracle acquired RightNow Technologies, Inc., a leading provider of cloud-based customer service for \$1.5bn.

October: G4S PLC acquired Danish outsourcing provider ISS for approximately £5.2bn, creating a global security and facilities services giant with combined sales of £16bn.

November: Capgemini acquired order to cash specialist, Vengroff Williams and Associates to strengthen its position in the global FAO market

December: IBM acquired DemandTec for approximately \$440m, to add to its cloud-enabled product portfolio

December: SAP AG acquired SuccessFactors Inc. for \$3.4bn in cash, for its cloud-based human resource management service

December: IBM acquired Emptoris Inc., a leading provider of cloud and on-premise analytics software

The main drivers of mergers and acquisitions activity can be put into one of three categories:

1. Acquiring to increase breadth & depth of capability

The reduction in labour arbitrage is changing models and end users are increasingly looking for sector and transformation capabilities from their suppliers. As such, suppliers are acquiring in order to gain industry depth.

The move towards integrated ITO/BPO will continue to lead to acquisitions, as companies acquire to bolster their capabilities and plug gaps. Indian IT services giants are successfully plugging their BPO capabilities gaps so they can

go head to head with global giants such as IBM and Accenture – and have every opportunity of winning.

2. Acquiring to increase geographic reach

Vendors are acquiring geographic capability to enable them to enter new geographies – often in the emerging markets.

3. Consolidation

Many of the tier two players are not making money post the benefits of labour arbitrage. This will result in consolidation in the supply chain, further reducing choice – and so providing an additional point of concern for end users, who are already worried about overdependence on any one supplier.