RED ROVER IN M&A

Contingent Workforce Strategy Readiness

David McGonegal
Vice President, Strategic Client Solutions

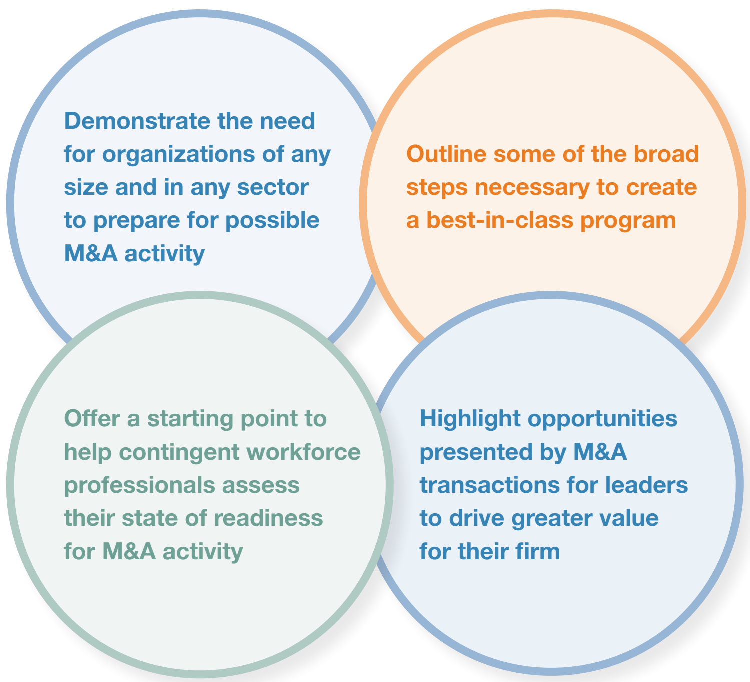
Jennifer Torney
Vice President, Strategic Client Solutions

TAPFIN
ManpowerGroup Solutions

Introduction

The last two years – 2015 and 2016 – are on pace to represent one of the most significant periods of merger and acquisition (M&A) activity in recent decades. Analysts predict that the rapid pace of M&A activity will continue well into the future. These trends, combined with changing workforce models, will create an environment where flexible workforces have a greater impact on companies' ability to execute their strategies than ever before. At the same time, M&A activity is always associated with efforts to identify potential synergies and reduce redundancies. For Managed Service Provider (MSP) leaders and contingent workforce management executives, this raises two questions: First, is our program ready for such a transaction? Second, how can we ensure that our program survives?

To address these questions and prepare MSP leaders for the inevitable, this paper seeks to:



For most organizations, M&A is no longer a matter of "if," but a matter of "when." This reality creates a new set of questions and considerations for MSP leaders, and compels them to prepare their programs for a future in which best practice, gold-standard approaches will be necessary.

The Case for M&A Preparation

In recent years, M&A activity has expanded and shows no signs of slowing down. Industries and companies of all sizes are considered viable M&A targets. Current data suggests that organizations and market sectors which have experienced limited M&A activity to date are likely to be impacted in the future.

Activity is at a record pace and is expected to continue

With total deal value of $5 trillion, 2015 M&A activity was the highest on record.[I] 2016 is shaping up similarly and 59 percent of companies expect to actively pursue acquisitions in the next 12 months.[II] Longer term projections are even more pronounced. For example, a recent global survey of business leaders found that 85 percent expect an increase in M&A activity over the next 24 months.[III]

Increases in cash-on-hand, low interest rates and growth-oriented mindsets are fueling companies' efforts to diversify.

Cash

JP Morgan reported that companies globally had an accumulated $6 trillion in cash reserves in Q4 2014.[IV]

Low Interest Rates

Historically low interest rate levels make debt financing inexpensive, which smooths the path for deals. However, the aforementioned cash reserves also reduce the need for debt financing as companies use cash and stock to finance their efforts.

Growth

Nearly nine in 10 global CEOs say growth is currently their top priority today[V] and a significant share of companies (84 percent) say global expansion is the focus of their M&A strategy.[VI]

I https://www.jpmorgan.com/global/insights/maglobaloutlook
II http://www.ey.com/Publication/vwLUAssets/EY-Capital-Confidence-Barometer-Global-October-2015/$FILE/EY-Capital-Confidence-Barometer-October-2015.pdf
III Deloitte 2015 M&A Trends Report
IV https://www.jpmorgan.com/global/insights/maglobaloutlook
V https://assets.kpmg.com/content/dam/kpmg/pdf/2015/08/global-ceo-outlook-2015.pdf
VI http://www.ey.com/Publication/vwLUAssets/ey-international-expansion/$FILE/ey-international-expansion.pdf

Strong M&A Activity in All Sectors

M&A is driven by the unbiased pursuit of growth and return to shareholders. The following are a few highlights from specific sectors:

Oil & Gas: Consolidation and a focus on efficiency in the face of low oil prices are expected to drive continued M&A activity. In fact, nearly seven in 10 (69 percent) executives expect to pursue acquisitions in the oil and gas sector in the next 12 months.[VII]

Technology: Tech continues to be one of the most robust sectors in terms of M&A, with interest being generated from both inside and outside the industry. The first two months of 2016 saw more than $71 billion in global deals – the highest levels since 2000.[VIII]

Telecom: According to a survey of U.S. M&A executives, telecom was predicted to be the fourth most active industry (among 18 industries) in terms of anticipated M&A activity in 2016.[XI]

Financial Services: 2015 has seen a significant volume of M&A activity within the Financial Services industry. Analysts expect this to remain the trend as the sector's health improves and competition amongst new technology entrants shifts consumer expectations.

Pharma: Deal volume and deal value have steadily increased across 2013, 2014 and 2015 with the total value nearly doubling over that time.[IX] Analysts predict continued high pace of deal volume, although fewer mega-deals are expected[X] possibly because any high-value targets have already been acquired.

In 2015, companies expecting to complete acquisitions were also looking at new sectors. In fact, 81 percent of these firms were expected to pursue acquisitions outside of their sector. This represents nearly half of companies (48 percent) overall.[XII]

An Overlooked Dynamic in M&A: Increased Use of Contingent Workers is Growing

As M&A is growing, the use of contingent workers is also growing. This is driven by a variety of factors including changing workforce demands, regulatory shifts and the need for more agile systems. Flexible workforces are a powerful potential asset in an M&A environment. At the most basic level, they help companies respond to changes in production cycles, address immediate workflow needs as redundancies are identified, and more readily allow for expansion and contraction.

The good news in this M&A environment is the use of contingent workers remains robust. According to one global study, 51 percent of employers said they expect their contingent workforce needs to grow over the next three to five years.[XIII] It is projected that by 2020, 40 percent of the U.S. workforce will be made up of contingent labor.[XIV] There is little reason to expect a reversal of these trends. If anything, they are likely to accelerate as the share of the youngest working generation (Millennials) continues to grow. Recent research from ManpowerGroup revealed that half of millennials are open to non-traditional forms of employment in the future – freelance, gig work or portfolio careers with multiple jobs.

VII http://www.ey.com/Publication/vwLUAssets/EY-Capital-Confidence-Barometer-Global-October-2015/$FILE/EY-Capital-Confidence-Barometer-October-2015.pdf
VIII http://www.dealogic.com/media/market-insights/ma-statshot/
IX http://www.kurmannpartners.com/fileadmin/user_upload/MR-Pharma_Biotech/2016_IMAP_Report_Year_in_Review.pdf
X http://www.kurmannpartners.com/fileadmin/user_upload/MR-Pharma_Biotech/2016_IMAP_Report_Year_in_Review.pdf
XI http://info.kpmg.us/content/dam/info/ma-survey2016/pdf/2016-ma-outlook.pdf
XII http://www.ey.com/Publication/vwLUAssets/EY-Capital-Confidence-Barometer-Global-October-2015/$FILE/EY-Capital-Confidence-Barometer-October-2015.pdf
XIII http://www2.deloitte.com/content/dam/Deloitte/at/Documents/human-capital/hc-trends-2015.pdf
XIV http://http-download.intuit.com/http.intuit/CMO/intuit/futureofsmallbusiness/intuit_2020_report.pdf

Preparing for M&A

When M&A activity occurs, contingent workforce programs, talent acquisition and workforce strategy can be significantly impacted. How ready is your organization if you get acquired tomorrow? Here are some key questions that can help determine current readiness before taking the necessary steps to be prepared:

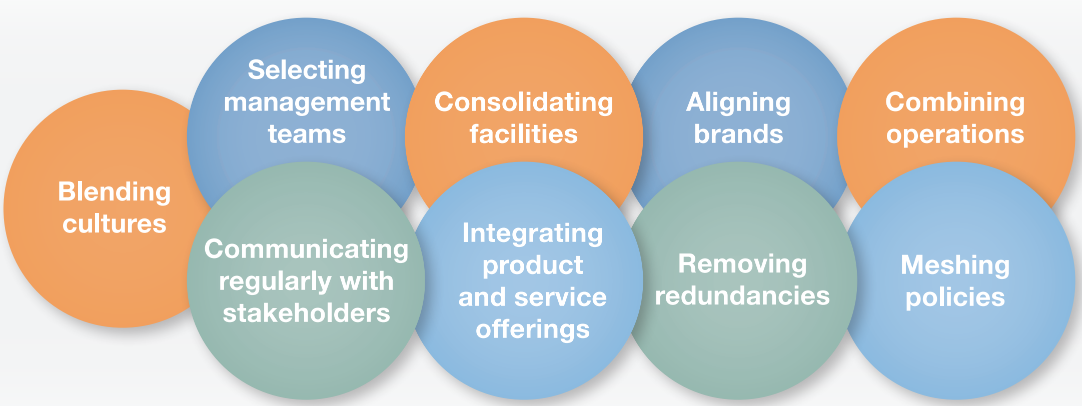
- **Do you have a plan to assimilate or integrate another program?**
- **How can your program and data help solve business problems?**
- **How mature is your MSP program and how does it compare to others?**
- **Are you able to clearly communicate your value proposition and the impact of your program?**
- **Are you actively developing sponsors to champion and increase the visibility of your program during uncertain times?**
- **How complete is your visibility into your firm's non-employee workforce?**
- **Are there unaccounted areas of spend?**

1 Understand the Process

Long before any public announcement, significant work has gone into identifying M&A targets, evaluating strategic fit and negotiating the parameters of the deal. Once announced, it may still take several months prior to any transaction closing — a period that may be driven by regulatory or shareholder approval. Following formal close of the deal, integration activities are quickly initiated and give rise to many competing priorities. Those who understand the process and timing considerations can effectively position the value of their contingent workforce program.

MSP leaders need to address flexible workforce needs during integration planning, prioritize synergy across teams and position the program and team for post-merger success.

Key Integration Tasks



In very broad strokes, a typical M&A timeline (recognizing that no M&A timeline is “typical”) might track along the following phases for the purposes of contingent workforce planning:

Days 1-30: Preparation

This is the opportunity to make your case and communicate the program’s value upward. M&A is a busy time for all involved, so cultivating champions across the executive team (e.g., in HR, talent acquisition, finance, etc.) will be important. This is also the time to define the integration team attributes including:

- The development of a formal, process-oriented and playbook for success
- Clear responsibilities, milestones for key tasks and key decisions
- Checklists, timelines, progress reporting and communications planning

Days 30-90: Planning

Integration is essential during this period and for MSP deployments, it has historically referred to systems integration. M&A integration includes systems and technology as well as cultural, policy, products and services, and facilities integration. This is a critical time to build support and synergy, as well as deploy the talent needed to execute and ensure all compliance requirements are exceeded.

Days 90-180: Closing

This period is focused on compliance and often involves approval by regulatory bodies. While all of the legwork and preparation should be complete, it is essential that the case for your program be continually monitored and refined during this period.

Days 180+: Transition

The transition phase should focus on continued buy-in and communication of the program’s progress, benefits and value. There will likely be many new stakeholders to bring on board, so it is important to use this time to cultivate ongoing support.

Management consulting firms are often engaged to support business integration. Often, they will begin by evaluating different processes, interviewing and observing different sides of the workforce management equation. The MSP program that brings the most value is the one likely to be retained.

2 Assess Current State

The best way to assess the M&A readiness of your contingent workforce management program is to prepare for the issues that will likely be raised. While a broad range of factors must be considered, these categories typically drive the creation of best-in-class programs.

Key Areas to Assess Readiness

Financial
Data on bill rates and cost savings should be among the first requested and easiest to access. Beyond these basics, you should understand how contingent workers contribute to and support your firm's growth engines, profit centers and revenue generating initiatives. Establishing this connection in the eyes of key stakeholders will elevate the perception of your MSP program.

Compliance
All companies face some form for workforce compliance with the complexity varying based on industry and location. One of the core benefits of an MSP program is the ability to track and continuously update compliance documentation across all areas of operation. This data is always critical and is sure to be called upon during a merger, acquisition or divestiture.

Strategic
What is the relationship between the MSP and the company's strategic priorities? How does this factor into the newly merged organization's goals (or the acquirer's goals)? These are best practice questions that MSP leaders in today's environment will need to be able to answer.

Data and Visibility
Merging contingent workforces and the technology which tracks them is a data-driven effort requiring complete workforce transparency. The challenge is many companies lack a complete picture of who might be working on their premises or on their behalf at any given time. (See the next section on worker tracking for more guidance on this subject.)

Policy
It is important to understand which policies impact your ability to generate cost savings and deliver quality and value. Oftentimes, these policies (e.g., headcount freezes, tenure policies, competitive bid requirements, etc.) will vary across sourcing channels creating disincentives and inconsistencies. In an M&A scenario, this could easily amount to comparing apples to oranges if the policy environment is not fully understood.

Rogue Spend
Many MSP programs struggle with rogue spend and supplier exceptions (the argument being that "Company X does not fit into the program"). Almost always, supplier exceptions carry higher price points for similar services, and sometimes they carry dramatically higher price points. On average, TAPFIN clients spend four to seven times the value of their MSP program on statement of work (SOW) contract-based professional services. This is one of the first areas examined by M&A consultants in their effort to identify inefficiencies, and sourcing channel optimization solutions offer a straightforward way to identify and minimize this risk.

3 Prepare for the Inevitable

Between 70 percent to 90 percent of mergers and acquisitions fail to deliver expected value.[XV] According to executives, the two biggest threats to a deal are integration and unrealistic operating cost assumptions.[XVI] These challenges go well beyond the scope of an MSP program, but contingent workforce management is often overlooked as a potential leverage point from an integration and cost perspective. Contingent workforce professionals who strategically design and lead their programs with an eye toward mitigating these challenges are better positioned to assume leadership of a consolidated MSP solution in a newly integrated organization.

Based on TAPFIN's expertise, the following areas should be considered as programs prepare for the inevitable:

Understand the Time Required

M&A is not a short-term scenario. Communicating value, generating buy-in and integrating systems and cultures should be prioritized.

Invest in Relationships

There is a considerable premium on managing up, particularly for those who represent the company being acquired. As mentioned previously, program managers will not always have airtime, so it is essential that executives from HR, finance, technology and talent planning understand the benefits of your program.

Educate and Communicate

Key players may not fully understand the value of your MSP program. M&A environments require constant effort to educate and communicate your value proposition. Begin with a 30-second elevator pitch and then build in key metrics that point to risk mitigation, quality and cost savings.

One Size Fits One

Every company is different and so is every merger, acquisition or divestiture. Even the most defined playbooks are meant to serve as a guide.

Between
70-90%
of mergers and acquisitions fail to deliver expected value

One essential best practice activity during an M&A environment is to have a roadshow kit ready to go. This is a pitch piece that describes exactly what you do (remembering that an acquiring or acquired company may not have any MSP experience at all) and the value you provide. It points to key metrics, alignment with business strategy, major functions impacted, cost savings and approach.

XV https://hbr.org/2011/03/the-big-idea-the-new-ma-playbook
XVI http://www.ey.com/Publication/vwLUAssets/EY-Capital-Confidence-Barometer-Global-October-2015/$FILE/EY-Capital-Confidence-Barometer-October-2015.pdf

Best Practice Planning Guide: What the Gold Standard Looks Like

What defines a mature program with an advanced solution? While the specifics will vary by company, industry and location, there are a few pieces that are critical:

Business/Talent Strategy Alignment

More than ever, your business strategy is powered by your talent strategy. From an M&A standpoint, this suggests a need to think longer-term and consider what the program and workforce will look like in the future. Ultimately, this will involve a strong partnership between HR, talent acquisition, finance and procurement.

Well-Defined Metrics

The metrics—and the entire purpose of an MSP solution—come down to three categories: cost savings, quality and compliance. The deeper a program is able to go into these measures and connect to overall business strategy, the better positioned it will be for success in the future. **TAPFIN's "The Future of Workforce Analytics" white paper** goes into depth about improved talent analytics.

Worker Tracking Program

TAPFIN's internal estimates suggest as many as 80 percent of companies currently lack a reliable estimate of who is working on their premises or on their behalf on any given day. This reality is unacceptable in any environment, but it will be quickly noticed during M&A planning and integration. A sophisticated worker tracking program is a must-have.

A recent white paper released by **TAPFIN, "Finding the Missing Workforce: How Workforce Visibility Mitigates Risk and Creates Strategic Advantage,"** makes the case for formalized mechanisms to track an organization's workforce and outlines key areas companies should consider.

M&A Readiness: A Pharma Case

Pharma is a heavily regulated industry. Regular audits and risk mitigation play a significant role in workforce planning. Hiring involves extensive background screening, onboarding, verification and debarment checks (a system of the U.S. Food and Drug Administration that tracks individuals barred from working in the industry). Missteps in any of these areas can result in a site shutdown, as can misclassification of workers.

When a large pharmaceutical company initiated a high-profile acquisition of a smaller company, integration efforts included alignment of the two legacy contingent workforce programs. The acquired company had previously been subject to less stringent regulatory requirements due to its size and focus, and this was also reflected in the design of its MSP program. Risk mitigation was a primary consideration when determining the future state contingent workforce management model. Early questions focused on worker tracking and classification to ensure compliance and alignment with the performance workforce metrics of the acquiring company. The MSP program offering greater visibility into a broader cross-section of non-employee workers survived because it provided stronger alignment with the overall business strategy.

Market-leading MSP programs educate new stakeholders and demonstrate value as it relates to risk mitigation, cost savings and quality of talent. Leaders who ensure all of the necessary tools and information are in place and easily accessible are better positioned to influence integration activities.

[Conclusion]

Be Ready for the Future, Whatever it May Hold

The business landscape continues to evolve. M&A activity will continue, and we should expect to manage through a strategic transaction at some point in the near future. Contingent workforce management programs need to be ready. Consider the value of your program not only through the lens of day-to-day operations, but from the perspective of an executive charged with integrating multiple programs in a post-M&A operational environment.

Organizations that design and execute their workforce strategies with consideration for not only cost and compliance – but potential changes to environmental conditions – have taken vital steps toward readiness. Understanding the process, value determinations and opportunities during a potential integration will power a more responsive strategy. While there are a handful of companies that may remain untouched by M&A activity, planning for it ultimately results in best-in-class programs.

About TAPFIN

TAPFIN is a leading managed service provider (MSP) dedicated to the innovation and delivery of integrated workforce management solutions worldwide. TAPFIN's customized, scalable MSP solutions for contingent and project-based spend are instrumental in driving process, performance and productivity improvements across the client organization, while providing visibility, predictability, risk mitigation and overall cost reduction. Part of ManpowerGroup™ Solutions, the outsourced services offering from ManpowerGroup, TAPFIN offers a complete suite of workforce management solutions that fully leverages a blend of global expertise and local knowledge.

TAPFIN
ManpowerGroup Solutions

www.tapfin.com

TAPFIN

@TAPFIN