

Growing beyond limits

Interview with Patrick De Maeseneire, CEO

2011 was all about the US and European sovereign debt crisis, slow economic growth and continued high unemployment rates in most countries in the western world. What were your challenges and highlights? The uncertain environment you just described actually led to continued very good demand for our services. We achieved double-digit revenue growth for the second consecutive year. Our clients opted to make use of flexible labour, rather than adding permanent employees – a move that makes a lot of sense during such volatile times. Our lower-margin General Staffing business continued to outgrow the higher-margin Professional Staffing business and, coupled with the limited scope to increase prices, we needed to maintain a very tight lid on costs to protect our EBITA margin.

Are you satisfied with the progress on your six strategic priorities during 2011? Yes. We made good progress on all fronts. Retention of our own people continued to be a strong focus. We further developed on the IT front and have centralised the IT organisation. We continued to build on our leadership position in Professional Staffing, and with the acquisition of DBM we became the global leader in career transition and talent development management. The integration of MPS was successfully completed during 2011 and we achieved several important client wins with our MSP, RPO and VMS offerings. In fact, our VMS business Beeline signed on a record number of new clients in 2011. Improved segmentation of our client base and more efficient delivery models, especially in General Staffing, were a strong focus in 2011 and will continue to keep us busy also in 2012. And we continued to invest in the Emerging Markets. So, overall I am satisfied with our progress, though of course, we still have a lot of work ahead of us.

With the acquisition of MPS Group in 2010 you strengthened your exposure to Professional Staffing. Is it a concern that your General Staffing business continued to outgrow the Professional Staffing segment, especially in the USA? What was different about this recovery is that the General Staffing business, especially the Industrial segment, was growing very strongly for longer, before the Office business and Professional Staffing started to pick up. In other words, the typical recovery lag of the Office segment and also the Professional Staffing business was much longer this time. This is a reflection of the structural growth in our industry and companies having added more flexible human resources rather than permanent positions. Regarding our US Professional Staffing business, I am of course not pleased with the fact that we are lagging somewhat behind the market in terms of our revenue growth, especially in the IT segment.

What is the reason for the lag in revenue growth in IT in the USA? The integration of MPS was a success – we clearly exceeded our original synergy targets. But we were too focused internally, integrating back offices and merging branches, while the market started to pick up. Having been late in adding additional resources has meant that we have not been able to fully participate in the market growth. We have addressed the situation and hired more resources during the second half of 2011. We should close the gap to the market growth in 2012.

Is the EBITA margin target of over 5.5% mid-term still feasible, even if we face another recession in 2012? We are absolutely convinced that we will reach this target mid-term. We have increased the higher-margin Professional Staffing and Solutions businesses to above 20% of our total revenues and structurally reduced our cost base. In the meantime, our revenues have developed very well with two consecutive years of double-digit growth. While we have had some headwinds on gross profit, due to the business mix and reduced government subsidies in France, we have done an excellent job on the cost side.

It looks increasingly likely that Europe could enter into a recession again in 2012. GDP projections for the USA are also rather muted. How do you see Adecco developing in such an environment? Given our low level of visibility on revenue development, we have to manage our costs very strictly. Looking at recent trends, we clearly see that our clients are in a wait-and-see mode and are not adding resources in general. From today's perspective, a mild recession in Europe in 2012 indeed looks likely. We are prepared for such a scenario. We will protect our profitability, as we did in 2008 and 2009 during a much harsher downturn than what we expect today. The USA seems to be holding up fairly well for now, so that should help from a Group perspective.

You have taken the worldwide lead in career transition and talent development services. How do you see this business developing? With the recent DBM acquisition, we have strengthened our position in the counter-cyclical career transition business. This move has also considerably expanded Lee Hecht Harrison's existing geographic footprint, enhancing services for our clients internationally. This business typically picks up in economically weaker times.

The Emerging Markets are one of your six strategic priorities. What are your projections for the Emerging Markets in the near future? The Emerging Markets account for 7% of the Group's revenues. Already in 2011 around 30% of our temporary workers were employed in the Emerging Markets. And these numbers do not include the more than 125,000 temporary workers we place through our joint venture FESCO Adecco in China, where we hold a 49% minority stake. The lower salaries are the reason why today the Emerging Markets only account for 7% of the Group's revenues. Growth and wage inflation in these countries will increase their importance to Adecco's topline in the mid-term.

The social media have spread rapidly around the globe and are impacting the way people communicate and behave. What are your thoughts on how this will impact the HR industry and Adecco in particular? Social media and the Internet have changed the way people search for jobs and how clients advertise open positions. Nowadays, open job positions are advertised on corporate websites, Facebook, Twitter, LinkedIn and other sites visited by millions of job-seekers every day. At Adecco we use these tools to find new candidates and to send them specific open job opportunities that match their skills. In the USA, for example, 80% of first-time contacts at our Adecco-branded business come in via social media platforms. But the role of finding the right job for associates and the perfect person for our clients cannot be done successfully without human interaction. This is where we excel. We know the associates and their skills; we know the needs of our clients and we find the right fit.

There is a lot of talk about structural growth in your industry and increasing penetration rates. Why are you convinced of the growth opportunity for your company? We are in a constant dialogue with our clients and see their challenge to remain competitive. Our clients' demand has become more and more cyclical with peaks and troughs and goods are often only produced when ordered. This means that companies increasingly need to have a certain percentage of flexible human resources. Our clients value the services we offer and we clearly experience a trend where employers want to manage their staff more strategically and efficiently. This makes us confident that, in addition to the cyclical growth component of our industry, there is a lot of structural growth potential to be captured.

We have been witnessing what is often referred to as a jobless recovery with on-going high unemployment, but at the same time there are major skill shortages. How can we address the skills gap and what is Adecco's role in helping companies and governments adapt? Today we talk of a financial, political or a debt crisis, but for me the underlying crisis is a labour crisis. If we don't solve this, we won't solve the economic crisis. We have to re-industrialise the mature markets. This means bringing back production sites to Europe and the USA. At the same time, we have to stay competitive on salaries and make sure we make the right investments in training people for lifelong employment. At Adecco we help people take their first steps on the employment ladder. And we partner with governments to assist in the training and work placement of people particularly at risk of workforce exclusion.

So, Adecco's role in society at large does make a difference to people's lives? We play a key role in providing employment, creating jobs that otherwise would not exist and increasing the efficiency of labour markets. Every day we help hundreds of thousands of people find work and build their careers. Work is central to personal, family and social well-being. Work provides a sense of purpose and belonging, fostering our dignity and helping us to set lifelong goals. As the world's leading HR solutions company, we are conscious of our role and responsibility.