# WHY BUYERS BUY STAFFING FIRMS

r.a.cohen consulting

r.a.cohen consulting
M & A experience when you need it most

## Why Buyers Buy Staffing Firms

The urge to merge is often driven by one or more of the following motivators:

1. To more fully meet customer needs

- The cost of getting a new customer is very high
- One-stop shopping allows vertical integration of a customer
- Increase in fewer source purchasing
- Increase in large, national and global purchasing contracts
- Enter new geographic markets
- Redefine customer relationships

2. To gain administrative efficiencies

- Often it's less expensive to buy market share or market presence than build it
- Become a lower cost producer
- Increase purchasing power of insurance, benefits, marketing and advertising
- Spread fixed costs over a broader base

3. Use size to make their services more appealing

- Compete on the basis of price as the major differentiator
- The ability to service customers in more markets and sectors

Another strong motivating factor for acquisitions has a lot to do with diversification and integration (forward integration vs. lateral or reverse integration), especially those in the Specialty Services arena. However, a Commercial Staffing firm (providing LI & Office Services) can move to higher margin, lower risk “Office Services” or specialty areas and lessen the LI staffing to go higher up the “food chain.

Diversification provides the opportunity for a wider service offering to customers, the "one stop shopping” concept. However a more powerful motivator is the drive to improve margins, and hence earnings per share. The "prod" from shareholders and Wall Street is not only to continue revenue growth, but continue margin growth as well.

A perfect example of this is the wave of acquisitions by larger staffing firms into the IT arena, and now the wave of acquisitions by so called IT Service firms into the "solutions" arena and more recently their migration to the E*Commerce and CRM arenas. The nature of these acquisitions provides a FORWARD INTEGRATIVE move up the service “food chain” to a more sophisticated and profitable service offering that is currently in demand within the underlying economy.

As those firms in the Staffing Services arena find their service offerings turning into a commodity due to competition (i.e. market saturation). Prices begin to fall for the "older" service offerings, margin pressure rises and the need to improve margins drives the need to integrate upward, resulting in the need to acquire more profitable service offerings.

There are many reasons buyers buy, some proactive and some reactive to the ever-changing market environment. Growth by acquisition is not for everyone. Some former active buyers are now putting more resources toward organic growth, while newer buyers are emerging. For acquisitions to be successful, adequate resources and energy are required for integration.

*Bob Cohen and Sam Sacco run R.A .Cohen Consulting, a trusted industry M&A advisory service. These partners have advised on over 100 successful industry transactions. They can be reached at 416-229-6462 and (910) 509-0691 respectively.*

Sam Sacco and Brian Kennedy operate R.A. Cohen Consulting, a trusted M&A Advisory service that caters exclusively to the staffing industry. Since 1991, we have advised on hundreds of successful transactions.

Call us at 910.769.4057 or 416.229.6462 respectively.

## CONTACT


Sam Sacco
R.A. Cohen Consulting

6241 Chalfont Circle
Wilmington, NC 28405

910.769.4057 voice
910.262.5326 cell
910.782.2777 fax

sam@racohenconsulting.com

Brian Kennedy CPC
R.A. Cohen Consulting

8 Pine Avenue North
Mississauga, Ontario L5H 2P8

416.229.6462 voice
416.222.0177 fax

brian@racohenconsulting.com


www.racohenconsulting.com

r.a.cohen consulting