Change is the Only Constant: 2017 BPO Mergers and Acquisitions Update for North America

FROST & SULLIVAN

A Frost & Sullivan Perspective

Michael DeSalles, Principal Analyst

INTRODUCTION AND PURPOSE

Introduction

The North American Customer Care Outsourcing market is going through monumental changes that impact service delivery models, locations of delivery centers, and market strategies. Business Process Outsourcers (BPOs) in the customer care, support and sales arena are rapidly expanding their presence around the globe to serve new clients, acquire expanded language expertise and offer services from even more locations. BPOs are accelerating that growth, primarily through mergers and acquisitions (M&A).

This Frost Perspective will highlight a number of large BPO M&A transactions that have transpired in the last 6 years to understand the drivers, patterns and trends.

Client Benefits

Outsourcers provide customized, high quality customer care services and solutions to market leaders in the communications, retail, healthcare, consumer goods, government, travel & entertainment and financial services industries. Activities include customer service, sales, acquisitions, collections, technical support and help desk.

Customer care outsourcers offer a multitude of benefits to their client base. This includes eliminating capital expenses, flexibility to address new markets, access to qualified call center agents, reduced costs, advanced management techniques and the opportunity to gain access to state-of-the-art technology without massive financial outlays. Service provider solutions help clients increase the lifetime value of their end-user customer relationships.

Definition of Terms: Merger vs. Acquisition

Frost & Sullivan believes that it is important to point out the distinction between a merger and an acquisition for purpose of this Frost Perspective. Whether a purchase is considered a merger or an acquisition really depends on whether the purchase is friendly or hostile. It also depends on how it is announced. It seems that the real difference lies in how the ‘purchase’ is communicated internally and to the public. There are 4 important constituencies of both companies that need to be considered:

- Clients
- Employees
- Shareholders
- Board of Directors

In the pure sense of the term, a merger takes place when two firms agree to go forward as a single new company rather than remain separately owned and operated. For a public company, both companies' stocks are surrendered and new company stock is issued in their place. Take the example of the merger of Daimler-Benz and Chrysler. Essentially both companies ceased to exist when the two firms merged, and a new company, DaimlerChrysler, was created. In practice, however, actual mergers of equals do not happen very often.

Why has there been so much consolidation in the BPO market in North America?

The key principle behind buying a company is to create shareholder value over and above that of the sum of the two companies. It is the principle of one plus one equals three. It is the notion that two companies together are more valuable than two separate companies. At least that's the reasoning behind successful M&A activity.

The primary driver for the high level of BPO consolidation in the North American market is actually very easy to understand. Contact center outsourcers tell Frost & Sullivan that it is all about *strategic alignment and fit.* This is a highly variable cost business with a high degree of seasonality. Some client programs have thin margins. Outsourcers are finding that to be successful, they need to have a balanced strategy of organic growth, new logo sales, and strategic acquisitions. Indeed, the U.S. market represents the lion's share of growth in the global customer care market. Frost & Sullivan forecasts that the addressable BPO (Customer Care) market will reach $30.2B by 2020.

Fortune 500 enterprise clients that outsource, are reviewing and selecting only those global BPO players that offer scalable platforms and value-added services. Larger BPO players and mid-market companies, given solid cash reserves and good profits, can now seek out high-potential firms to acquire. The goal is to gain competitive advantage in the U.S. market and accelerate growth by way of:

- Geographic expansion
- Client diversification
- Niche vertical offerings
- Greater scale and seat capacity
- Deeper vertical expertise
- State-of-the-art analytical capabilities
- Entry into premium customer queues
- Improved operational performance and program management
- Additional language support
- Advanced solution and technology offerings

- Long-term revenue and profit potential
- Enhanced value creation for shareholders
- Improved market reach and industry visibility

The Role of Advisory and Legal Firms

The companies we interviewed tell us that they utilize a variety of consultancies, in combination with in-house resources, to perform due diligence in a typical acquisition. This could include:

- Investment bankers & private equity firms
- Specialized legal teams
- Corporate governance professionals
- Corporate finance experts
- In-house M&A specialists

Listing of Notable BPO Acquisitions

That All-important Cultural Fit

From the very first meeting, the acquisition team looks for cultural alignment and a 'fit' that signals a high degree of compatibility with their own mission, vision and values. Surprisingly, conversations with major clients may come late in the process. A high degree of confidentiality and discretion are critically important to maintain the integrity of the deal and not cause speculation in the market.

The Pressure to Grow

Despite the risks associated with M&A, today's competitive marketplace makes it nearly impossible for an organization to achieve its growth objectives through organic growth alone. Indeed, recent studies suggest companies that do not complement internal growth with external activity, such as M&A, find it increasingly difficult to provide the bottom-line results that shareholders expect. Companies looking to expand into new markets, pursue new innovation opportunities, and hit aggressive targets must therefore build M&A into their growth strategies. While not all inclusive, Exhibit 1.0 shows a list of notable BPO acquisitions that took place from 2009 to 2017:

Exhibit 1.0

ACQUIRER	TARGET	YEAR	Transaction Value (in MIL US)
Xerox	ACS	2009	*$6.4B
Stream Global Services	eTelecare	2009	$225
SYKES	ICT Group	2009	$263
Alorica	PRC	2010	Undisclosed
Alorica	Ryla	2010	Undisclosed
Sutherland	Adventity Global	2010	Undisclosed
NCO (Now EGS)	APAC Global Services	2011	$470
NCO (Now EGS)	Protocol Global Solutions	2011	Undisclosed
SYKES	Alpine Access	2012	$150
Sutherland Global Services	Apollo Health Street	2012	Undisclosed
Synnex (Concentrix)	IBM BPO	2013	$505
TeleTech (Revana)	Webmetro	2013	Undisclosed
Teleperformance	Aegis USA	2014	$610
Qualfon	Center Partners	2014	Undisclosed
West	Health Advocate	2014	$265
Convergys	Stream Global Services	2014	$820
STARTEK	Accent Marketing Services	2015	$16
Hinduja Global Services	Colibrium	2015	Undisclosed
Alorica	West Agent Services	2015	$275
Groupe Acticall	Sitel	2015	Undisclosed
TeleTech	Atlelka	2016	Undisclosed
Firstsource	ISGN	2016	Undisclosed
Teleperformance	Language Line	2016	*$1.5B
Concentrix	Minacs	2016	$420
Convergys	buw	2016	Undisclosed
Alorica	EGS	2016	Undisclosed
SYKES	Clearlink	2016	Undisclosed
TeleTech	Connextions	2016	$80
Sutherland Global Services	Nuevora	2016	Undisclosed
Xerox	**Spinoff: Conduent	2017	N/A
Genpact	Rage Frameworks	2017	Undisclosed
Telus International	Voxpro	2017	Undisclosed
Transcom Worldwide	Xzakt	2017	Undisclosed

Source: Frost & Sullivan analysis

Critical M&A Success Factors

Operational integration challenges

At the conclusion of any M&A transaction there are challenges that are faced by the acquiring company. These challenges are primarily in combining systems and back office infrastructure. There is a desire to reduce duplication (technology, platform conversions, sales structure, project management, change management; all with a measured and very deliberate approach. Both companies expect gains from a talent, technology, capabilities and client perspective.

BPO companies shared that they generally tackle the client communication and internal ‘people issues’ first. This entails constant and clear communication to the entire employee base about a host of concerns including:

- Job stability and career mobility
- Changes to site operations and new processes
- Compensation plans
- Client feedback and potential defections
- Contract modifications and terms
- Key performance metrics
- Management expectations
- Cultural alignment and fit
- Maintaining an upward revenue trajectory
- No negative effects on clients

Key company executives usually go ‘on the road’ to contact center sites for weeks-on-end, to personally explain the details of the integration plan to employees and key clients.

Conclusion

BPO mergers and acquisitions come in all shapes and sizes. Timing can be absolutely critical and investors have to consider a host of very complex issues before signing off on an M&A deal.

The companies that provided briefings for this Frost Perspective appear genuinely pleased with how the acquisitions have progressed on all fronts; financially, operationally and culturally. Reported feedback from clients, across the board, has been incredibly positive. Sales activities are brisk and there are a number of new logo wins.

What we have learned in researching this topic is that the ‘hunt’ for acquisition targets (large and small) never stops in the BPO market in North America. Frost & Sullivan believes that the level of acquisitions in the BPO market will continue at a steady pace. The aforementioned acquisitions seemed to have created synergies and economies of scale; expanding operations, options for clients and cutting costs.

The key to successful BPO acquisitions lies in disciplined due diligence, seeking out accretive targets and ensuring a continuous communication flow to employees, investors, shareholders and clients.

ABOUT FROST & SULLIVAN

Frost & Sullivan, the Growth Partnership Company, enables clients to accelerate growth and achieve best in class positions in growth, innovation and leadership. The company's Growth Partnership Service provides the CEO and the CEO's Growth Team with disciplined research and best practice models to drive the generation, evaluation and implementation of powerful growth strategies. Frost & Sullivan leverages almost 50 years of experience in partnering with Global 1000 companies, emerging businesses and the investment community from 31 offices on six continents. To join our Growth Partnership, please visit http://www.frost.com.

Auckland
Bahrain
Bangkok
Beijing
Bengaluru
Bogotá
Buenos Aires
Cape Town
Chennai
Colombo
Delhi/NCR
Detroit

Dubai
Frankfurt
Iskander Malaysia/Johor Bahru
Istanbul
Jakarta
Kolkata
Kuala Lumpur
London
Manhattan
Mexico City
Miami
Milan

Mumbai
Moscow
Oxford
Paris
Pune
Rockville Centre
San Antonio
São Paulo
Seoul
Shanghai
Shenzhen
Silicon Valley

Singapore
Sophia Antipolis
Sydney
Taipei
Tel Aviv
Tokyo
Toronto
Warsaw
Washington, DC

Silicon Valley
331 E. Evelyn Ave. Suite 100
Mountain View, CA 94041
Tel 650.475.4500
Fax 650.475.1570

San Antonio
7550 West Interstate 10,
Suite 400,
San Antonio, Texas 78229
Tel 210.348.1000
Fax 210.348.1003

London
4 Grosvenor Gardens
London SW1W 0DH
Tel +44 (0)20 7343 8383
Fax +44 (0)20 7730 3343

877.GoFrost
myfrost@frost.com
www.frost.com

For information regarding permission, write:
Frost & Sullivan
331 E. Evelyn Ave. Suite 100
Mountain View, CA 94041