Leading HR solutions on a global scale

Interview with Patrick De Maeseneire, CEO

2013 again saw its fair share of ups and downs in the global economy, but most notable was the improving picture in Europe. How was the year for your business? The year indeed began with much uncertainty especially in Europe, but in Q1 we already started to see signs of stabilisation in our business. We were cautiously optimistic on the outlook based on improving GDP forecasts and the customer feedback we received. The results through the year confirmed our view. For the Group, the revenue declines eased during the first half of the year and most countries returned to growth in the second half. We maintained our price discipline and cost focus, and we were able to deliver a 40 bps increase in our 2013 EBITA margin excluding restructuring and integration costs.

Where have you seen the most significant improvements? During 2013 we saw better conditions for most of our businesses, although the pick-up was gradual rather than dramatic. The improvement is most obvious in the countries with a higher exposure to industrial demand. In Germany & Austria, Italy, Benelux and Iberia, for example, revenues adjusted for trading days declined by mid-single-digits in Q1 2013 but grew by 9–12% in Q4 2013. Industrial demand is normally the first area to pick up in a recovery, followed by Office and then Professional Staffing, so we are encouraged by the pattern of improvement we saw during 2013.

France is clearly lagging behind the other European countries for Adecco in terms of growth. How do you see the situation there? We expected France to be a difficult market in 2013 and that turned out to be the case. In other European countries such as Italy and Spain we clearly see the positive effects of structural labour market reforms, while in France we have not seen similarly effective measures implemented. The economic situation is forecast to improve only modestly in 2014, but we do expect our business to return to growth in the first half as employers appreciate more than ever the value of the flexibility we provide. Given the continued difficult environment, it was important that in 2013 we realised the benefits of the successful 2012 merger of the Adecco and Adia brands in France. This helped us maintain our industry-leading profitability. Following the additional cost adjustments we made during 2013, the Adecco business is well positioned for any future recovery in market conditions.

North America was a brighter spot and in the USA the industry has reached the prior peak penetration rate of temporary workers in the overall workforce. Does that make growth prospects for the coming years more limited? North America did indeed show steady growth in 2013 and we were especially pleased to see good growth in our IT business, where we previously made targeted investments. Looking forward, we do not see prior peak penetration rates as a ceiling for our industry in the USA or any other country. Changing labour needs, the increasing skills gap, mobility and the trend towards flexibility in general mean that the penetration rate of temporary workers is likely to increase in the USA and elsewhere.

What are your expectations for 2014? In our business we have low visibility, but PMI surveys and other economic leading indicators point to a progressively improving economic outlook. This is reflected in consensus expectations of stronger GDP growth in 2014 than last year in Europe, North America and most of the Emerging Market economies in which we operate. This should support a further acceleration in revenue growth in 2014 compared to the 4% growth in constant currency that we achieved in Q4 2013. Through our EVA framework, we will continue to focus on price discipline, cost control and working capital efficiency, in order to deliver strong operating leverage and cash generation.

At the beginning of 2013 you set the target of reaching your EBITA margin goal of above 5.5% in 2015. What do you need to do to achieve this? We are committed to reaching our profitability target in 2015 and we remain highly focused on executing on our strategic priorities in order to make this possible. The primary driver of EBITA margin improvement will be operating leverage, coming from a topline recovery in conjunction with strict cost control as we utilise the spare capacity in our business. Given the structural growth drivers our industry enjoys, we expect to deliver high single-digit organic revenue growth in 2014 and 2015, assuming GDP growth in line with current consensus estimates. In addition to operating leverage, we expect a further modest improvement in gross margin.

In 2013 you completed a EUR 400 million share buyback programme and immediately launched a new programme for up to EUR 250 million. Why do you prefer to use your cash flow in this way rather than for acquisitions? Our decision was a consequence of not pursuing acquisitions for the foreseeable future, not the other way around. At this point in the Company's development and the economic cycle, we think shareholders' interests are better served by a focus on organic growth. We see considerable upside from fully leveraging our strong portfolio of businesses across the Group and from our project to globalise our IT platforms. By keeping our management team focused on our existing operations, we can best capture the growth opportunities presented by a recovering global economy and deliver on our target of reaching an EBITA margin of above 5.5% in 2015.

Do you see any regulatory changes coming up over the next few years that could help or hurt your industry? Overall, the regulatory trend goes towards being less restrictive as most countries recognise the benefit of a flexible labour market in general and agency work in particular. Agency work is an important step for individuals to gain experience and confidence in the labour market in a regulated environment where their rights are protected. In times of uncertainty, companies are more willing to add temporary labour and this helps to drive economic recovery. In Germany, we have seen recent regulatory developments following the creation late last year of the coalition between the Christian Democratic Union (CDU)/Christian Social Union (CSU) and the Social Democratic Party (SPD). The main changes relevant for our industry are the introduction of a minimum wage, the 18-month time limit on temporary assignments and the removal of the right of workers' councils to negotiate surcharges as an alternative to equal pay for temporary workers.

Are there any other trends shaping your markets, such as in the field of technology? Advances in technology have always helped drive the development of our industry, and such changes often contain elements of both opportunity and threat. The increasing influence of social media in society is one of the latest examples of this. We do not expect social networking platforms to drastically alter our industry, but there are significant benefits for us in tapping into such networks to access candidates. The need to fully leverage such opportunities is one of the motivations for us to centralise our IT organisation and improve and standardise our IT platforms. This process is progressing well and we are on track to begin rolling out our new systems in 2014.

You launched a Global Talent Competitiveness Index (GTCI) in cooperation with INSEAD in France and the Human Capital Leadership Institute (HCLI) in Singapore. Can you tell us a little more about it? Adecco is confronted with the realities and challenges of labour markets on a daily basis. We see that talent becomes increasingly scarce in many regions despite high unemployment, due to demographics and also to the mismatch between skills available and open positions. Companies, countries and cities are increasingly competing for talent, and seeking to attract, develop and retain it. Talent has become the key resource of the global economy and therefore one that decision-makers need to understand in depth. The GTCI evaluates and ranks over 100 countries based on their talent competitiveness. The analysis will help decision-makers, businesses and governments to better match talent with jobs. The GTCI confirms that talent champions foster and develop locally available talent by making their labour markets more flexible, by investing in lifelong learning and by promoting geographical mobility. The availability of 'labour and vocational skills' and 'global knowledge skills' seem to be other crucial elements to do well in today's talent economy.