

Our industry increases the efficiency of labour markets, raises the competitiveness of companies, and creates jobs that would not otherwise exist.

The HR services industry

Lifelong employment for everyone, adapted to personal, family, generational, and geographical needs and abilities, is the aim of our industry. HR services companies help people find a permanent, fixed-term, or temporary job as well as enhance their employability through continuous training, education, and career counselling.

Staffing market in 2014

Competitive landscape

The global HR services market is highly fragmented and the competitive landscape varies considerably from one country to another. There were almost 260,000 private employment agencies worldwide in 2013 according to Ciett¹. Among the biggest markets measured by revenues, the USA, Japan, and the UK show a high degree of fragmentation. The markets in France, Italy, and Spain, by contrast, are more concentrated. Looking at the global picture, the three largest listed staffing companies represent around 16%² of global turnover. The Adecco Group is the largest HR services company worldwide and has leading positions in Europe, North America, Asia-Pacific, and Latin America.

Consolidation in the staffing industry is ongoing, particularly in fragmented markets, and it is prompted by several factors. First, consolidation is driven by the need of companies to better utilise economies of scale. Additionally, the trend of large multinational companies to outsource part or all of their HR processes continues. Partnering with a Managed Services Provider to manage a company's contingent workforce spend typically results in higher volumes for fewer suppliers. Moreover, consolidation is also driven by general staffing companies

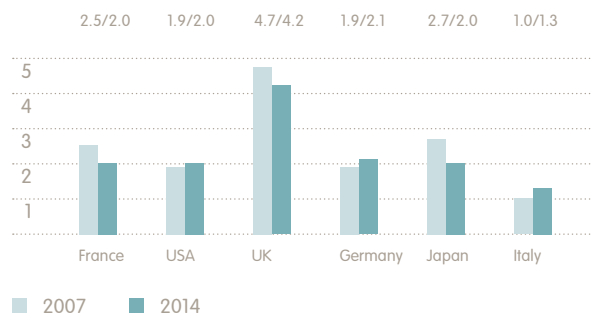
seeking a stronger foothold in professional staffing in order to diversify their product offerings and to enhance their position in this more profitable and faster-growing segment.

In 2014, the global staffing market grew by approximately 6%^{2,3} to EUR 330 billion². Professional staffing, accounting for around 30%² of the global staffing market, and general staffing, accounting for around 70%², both increased by 6%^{2,3} year-on-year. The USA represented the single largest market for HR services measured by revenues in 2014, with a share of approximately 28%², followed by Japan with 15%² and the UK with 11%². Europe⁴ as a whole represented 34%² of the global staffing market in 2014, whereas the emerging markets accounted for 17%².

In the beginning of the year staffing markets grew across all the main regions supported by the economic recovery. However, in the summer, growth stagnated in Europe due to geopolitical uncertainties leading to downward revisions of GDP expectations. In the USA, the economic recovery continued, which was reflected in the staffing market growth.

An important indicator of the temporary staffing market in a country is the penetration rate. This is the ratio of temporary workers (FTEs) to the total active working population. Penetration rates differ significantly across markets and have changed over time.

Temporary penetration rates² in %



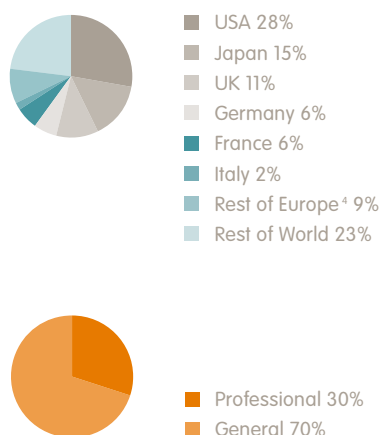
¹ International Confederation of Private Employment Agencies.

² Adecco estimate. Due to change in methodology, the estimates are not comparable to those published in previous annual reports.

³ In constant currency.

⁴ Excluding emerging markets.

2014 global HR services market by revenues²



In 2014, the UK enjoyed one of the highest penetration rates globally at around 4.2%², but this was still significantly below the prior peak of 4.7%² in 2007. In the USA, the world's largest staffing market, the penetration rate in 2014 reached the prior peak of 2.0%⁵, achieved in 2000. Japan at 2.0%², Germany at 2.1%², and France at 2.0%² were still below their historical peaks in 2014. In the emerging markets, penetration rates continued to increase but remained below 1%².

France

France is an important market for staffing, with an approximate share of 6%² of the global market. While the staffing industry in general shows a high degree of fragmentation, the French market is significantly concentrated: the three major players hold a total market share of around 55%². Adecco is the market leader in France, with a market share of about 22%².

At the end of 2012, the Government introduced a tax relief programme known as CICE (tax credit for competitiveness and employment) for all companies operating in France. For 2013, this provided employers with a tax credit of 4% on employee salaries up to 2.5 times the minimum wage and for 2014, the amount of credit increased to 6%. It is currently foreseen that this credit will remain in place until at least 2017. The credit must be used in part to fund training and investment in research and development.

The weak economic backdrop in France led to zero² growth in the French staffing market in 2014 compared to a 7%² decline in 2013.

USA

The US market, which represents approximately 28%² of the global staffing market, is the largest worldwide. It is highly fragmented, and while Adecco is the second-largest player, our market share is only about 4%². From a regulatory perspective, this market is amongst the most liberal in our industry. It is also

Adecco's market position in 2014

	% of Adecco revenues	Market share in % ²	Market position ²
France	23	22	1
North America	19	4	2
UK & Ireland	10	6	1
Germany & Austria	8	9	2
Japan	5	2	4
Italy	6	17	1
Benelux	5	6	3
Nordics	4	12	2
Iberia	4	20	2
Australia & New Zealand	2	2	5
Switzerland	2	15	1
Emerging Markets	10	4	1
LHH	2	14	1

one of the most developed in the world in professional staffing, which accounts for around 54%² of revenues in the US market.

The region's demand for temporary jobs was healthy in 2014 and increased faster than permanent employment. As a result, the penetration rate increased to 2.0%⁵ for the year 2014. The penetration rate in the USA is expected to increase further, driven by both regulatory and structural trends which could spur further demand for temporary staffing.

UK

Representing around 11%² of global staffing revenues, the UK is the third-largest market in the industry worldwide. As in the USA, the UK staffing market is highly fragmented and the labour market is fairly liberal. With a market share of roughly 6%² Adecco is the market leader in the UK.

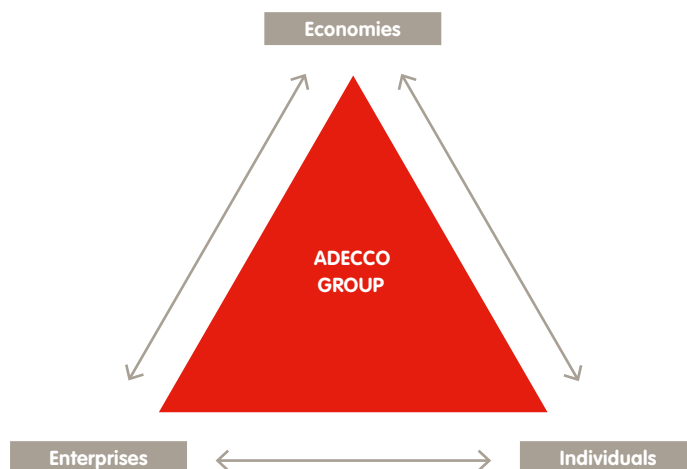
In line with the recovering UK economy, the UK staffing market showed an improving growth trend during 2014.

Germany

Germany is a key market for staffing with a roughly 6%² share of the total global market, and we continue to view it as one of the most attractive markets. Our market share is around 9%², making us the second-largest player in Germany.

The comparatively higher profitability in Germany is attributable to the fact that temporary agency workers are effectively permanent employees of the staffing firm. Employing associates on a permanent basis is in contrast to most other European countries, where the employment contract signed with temporary staff is limited to the duration of the assignment at the client. While having the temporary associates on our own payroll is to some extent a liability during economically difficult times, it also allows for premium pricing to factor in this risk, resulting in higher overall operating margins.

⁵ Source: Bureau of Labor Statistics.



In the beginning of 2014, the German economy performed well, supporting good growth in the staffing market. However, in the second half of the year weaker GDP growth and geopolitical uncertainties negatively impacted the staffing market. Despite this softening, we continue to believe that the structural growth opportunities remain intact.

Japan

The Japanese market is the second-largest staffing market in the world, representing roughly 15%² of the global market. Fragmentation is high, with the four largest players representing only around 20%² of the temporary staffing market, while the remainder is dominated by numerous small regional staffing firms. Adecco is currently the fourth-largest player in the Japanese market.

In 2013, the Government announced a planned structural change of the temporary staffing and worker dispatch laws. The new legislation would eliminate restrictions based on specific job categories and also change contract periods for non-permanent workers. These regulatory changes are expected to be considered for legislative approval in 2015.

Italy

The Italian market represents only about 2%² of the global market but it is an important market for Adecco. We are the market leader with a market share of around 17%². The penetration rate of temporary staffing has been increasing in the rigid Italian labour market since agency work was regulated at the end of the 1990s, but it is still below the European average. In 2012, the market changed structurally as a labour market reform was approved. One of the goals was to favour positive flexibility, which agency work provides, and to discourage negative forms of flexibility, which include hiring employees on a series of short-term contracts that guarantee neither job security nor equal pay. Recently, Italy also approved the so-called 'Jobs Act', under which detailed legislation is expected to be enacted in 2015.

Information on the performance of Adecco in the specific countries and regions can be found in the Financial Review.

Our role

We are conscious of our role towards all stakeholders in the markets where we operate. We maintain a constant dialogue with employers and employees as well as with social, government, and business stakeholders to create more and better work opportunities for individuals worldwide. Economies, enterprises, and individuals all have to face seasonal, cyclical, and structural market changes. As a labour market intermediary, we help them to adapt and react to these challenges.

Economies

As an HR services company we turn available work into jobs and thereby support economic growth. Labour market efficiency is increased through our deep understanding of companies' needs and people's work or education aspirations to provide the needed match between supply and demand. We increase labour market participation by enhancing the employability of workers, creating new work solutions, and fostering geographic and occupational mobility. As a result, our industry provides economies with the required flexibility for increased competitiveness and sustained economic growth.

HR services reduce the time lag between recovery and job creation, and increase the range of employment choices and opportunities for people.

Research studies⁶ increasingly recognise the positive role that HR services companies play in the economy. They reduce the two dimensions of unemployment: structural and frictional. Countries with higher agency work penetration rates are also the ones with lower unemployment rates. Agency work does not substitute permanent contracts: 74% of user organisations would not consider hiring permanent workers as an alternative to taking on agency workers, and 62% of them would not create jobs if they had no access to private employment services.

⁶ Source: Ciett, various publications.

Individuals

For individuals, we offer legally recognised and regulated work opportunities, facilitate on-the-job training, and enhance occupational and geographic mobility. HR services companies also create stepping-stone opportunities for under-represented groups to gain work experience and to secure complementary incomes (e.g. students, part-timers, retirees). By offering flexible work solutions we increase job options and enable workers to improve their work-life balance. Individuals benefit from a greater choice of work and from improved employability.

Evidence⁶ shows that temporary agency work facilitates the transition from unemployment to work, from temporary to permanent jobs, from education to work for young people. In the USA nearly 90% of agency workers report that agency work made them more employable by developing new or improving work skills (62%), receiving on-the-job experience (59%), strengthening their CV (59%), and helping to get a foot in the door for a permanent job (49%). Agency work also enhances labour market participation for vulnerable groups. Across Europe, agency work is recognised as an effective channel to find a permanent job as well as a first job. In Europe, 35% of agency workers are below 25 years of age; for them agency work is often the first opportunity to gain work experience. According to agency workers, most of them use agency work to gain experience and develop their skills and find a job quickly. In several European countries, training funds managed by social partners have been established to facilitate access to vocational training for agency workers.

Enterprises

HR services companies help enterprises to adapt better and faster to economic cycles, thereby maintaining and increasing their competitiveness. The expertise in workforce management and the speed of execution make HR companies a valuable partner for enterprises to manage their complex workforce planning as well as the risks. Companies get access to talents or improved skills of workers. Through increased flexibility, companies are in a position to protect core activities and cope with unpredictable changes in the market environment.

Research⁶ suggests that an estimated 76% of employers use agency work to respond to changing business demands and fluctuations in activity.

The industry's contribution to the labour market⁶

Each day, 12 million workers (FTEs) are employed through agency work. Each year our industry:

- Supports 60.9 million people in their job life
- Helps 24.4 million young people enter the labour market
- Up-skills 8 million people, giving them more work choices
- Creates 4 million more jobs
- Serves 2.3 million companies with the right talents to succeed.

Key growth drivers for our industry

Growth in our industry is driven by cyclical and structural factors. The major cyclical driver is economic growth. Demand for temporary and permanent staff tends to increase when GDP grows – specifically, when GDP growth exceeds productivity gains. Career transition, on the other hand, has an inverse relationship with economic growth, i.e. outplacement activity increases when GDP declines. The strength of the cyclical relationship between industry growth and GDP growth depends on the point in the economic cycle, the stability or volatility of the cycle, and the maturity of the industry in a country (largely driven by the regulatory situation and history).

Several structural factors drive the development of our industry. Technological advances have had a large impact on productivity and have clearly changed labour needs: demand for labour has shifted from sectors such as agriculture and manufacturing to services and creative industries. These changes have opened up a skills gap for highly qualified workers and the ageing of the workforce is widening this gap further. The realisation of companies that a flexible workforce drives competitiveness has also changed the demand for labour towards more temporary staffing. As well as these demand-side factors, important trends are also occurring on the labour supply side, such as the greater mobility of workers and the increased number of people offering their skills as independent contractors. While these varied trends affect our industry in different ways and to different degrees, the overall impact is positive for the growth of our industry.

Improving economic trend

At the beginning of a recession, companies react to lower demand by reducing staff. Typically, the first ones to be let go are temporary workers, while companies try to keep permanent employees. However, at the beginning of a recovery, temporary workers will usually be the first to be hired. Permanent jobs will only be created when the economic environment becomes more stable and confidence improves. Therefore, permanent employment growth lags behind temporary growth. The position in the cycle also has a strong impact on career transition. The longer and deeper a recession, the more career transition is needed.

Impact of different factors/trends on service lines

	Temporary Staffing	Permanent Placement	Career Transition
Improving economic trend	+	+	-
Increased flexibility	+	-	=
Wider skills gap	+	+	=
Greater mobility	+	+	+
More independent contractors	+	-	+
Appropriate regulation	+	+	+

Increased flexibility

Greater flexibility in dealing with peaks and troughs in demand is achieved by companies employing temporary workers as a part of their workforce. Current production trends, oriented towards made-to-order, are structurally increasing the need of companies for flexible staffing levels. The inventory-to-sales ratio in all businesses in the USA declined by 14%⁷ between 1992 and 2014. These trends are expected to continue and should further drive demand for temporary staffing.

Wider skills gap

While demand for labour in many economies has shifted to more specialised roles, the supply of labour has not been able to adapt. The unemployment rate among workers with lower qualifications has increased in the developed countries and a high number of specialised roles remain vacant. The staffing and recruitment industry can help to narrow this gap by accessing additional demographic groups (e.g. students, part-timers, retirees), by taking full advantage of its global presence and pool of candidates, and by facilitating mobility. It exemplifies that our business is not just about recruitment but also about training and providing lifelong learning to increase employability.

Greater mobility and more independent contractors

Nowadays, individuals are more willing to move across borders to pursue work opportunities and enhance their careers. At the same time, more experienced people increasingly offer their services as independent contractors. These trends satisfy the need of companies for greater flexibility and better job-profile matches in order to overcome the growing talent shortage in many industries.

Appropriate regulation

The regulatory framework of labour markets in individual countries has a significant influence on the size of HR services markets and growth rates. The appropriate regulation of the HR industry, and in particular the temporary labour market, balances flexibility with security for companies and workers alike, and drives the efficiency of labour markets. Each market requires appropriate regulation to increase efficiency and allow HR services companies to play their role in creating jobs and increasing labour market participation.

Regulatory environment

To maximise the benefits of HR services in delivering greater labour market efficiency, relevant regulation should balance flexibility with security for both workers and businesses. Adecco is supportive of international instruments that provide guidelines to properly regulate private employment services, such as the ILO Convention at global level and the EU Agency Work Directive at European level.

ILO Convention 181

Along with its accompanying Recommendation 188, ILO Convention 181 encourages the effective operation of services provided by private employment agencies, and especially temporary work agencies. The convention was adopted in 1997. It recognises the role HR services companies play in a well-functioning labour market and emphasises the protection of the workers using their services. As ILO Convention 181 only provides the framework within which HR services companies should operate, member countries implement it in accordance with their national labour legislation. To date, ILO Convention 181 has been ratified by 29 countries. Adecco supports efforts at national level with national legislators to ratify ILO Convention 181.

EU Agency Work Directive

The EU member countries were required to implement the EU Agency Work Directive in their own legislation by the end of 2011. Key elements of the Directive are the recognition of agency work, the removal of unjustified restrictions against the use of temporary work, and the establishment of the equal treatment principle (unless national collective labour agreements with social partners set exceptions to the principle). Since the end of the transposition deadline, the industry has faced an uneven implementation of the Directive across the EU. Adecco, Eurociett, and the national associations continue to advocate for the correct implementation of the Directive, focusing on the appropriate regulation and lifting of unjustified restrictions.

Local laws

Across the globe, Adecco encounters considerably different regulatory schemes and drives the efforts of national associations to improve labour market efficiency. In most markets where Adecco operates, company representatives are engaged in the dialogue with national authorities to foster appropriate labour market regulation and define the proper regulatory environment for the provision of private employment services. In regions where the staffing industry is less mature, much emphasis is placed on setting up the proper regulation of the industry in order to differentiate properly regulated agencies from rogue providers.

⁷ Source: United States Census Bureau.

Key services in the HR industry

The HR services industry is often split into two main parts: staffing and HR solutions. Staffing covers both temporary staffing and permanent placement, with the latter often split into mid- and lower-tier recruitment. HR solutions include all related HR services such as career transition, talent development, and outsourcing.

Temporary staffing

Temporary staffing is the largest service line within the HR industry. Historically employers used temporary staff to fill the gap when employees were temporarily absent, such as for sickness or vacation, and when economic uncertainty reduced confidence in the near-term business outlook. Today, employers increasingly use temporary staff also to fill jobs that are exposed to inherent demand variation (e.g. seasonal peaks, projects, changing production lines, just-in-time ordering). This helps companies to adapt better and faster to changes in demand and thereby maintain their competitiveness. For individuals, temporary employment provides work opportunities and experience that improve their employability, and employees increasingly use temporary assignments strategically to build a range of skills and experience. Temporary staffing can be split based on skill levels, with general staffing covering basic skill levels and professional staffing used for qualified roles. Historically, the majority of temporary staffing was in general staffing, but over time professional staffing has become an ever more important part of temporary staffing, now accounting for approximately 30% of industry revenues.

Permanent placement

When employers are confident on the economic development and on their need to fill certain key positions, or are keen to secure skills that are in short supply, they tend to hire staff on a permanent basis. Many staffing agencies offer both permanent placement and temporary staffing services, but the process and financial characteristics of the two are significantly different. Like temporary staffing, permanent placement services can also be divided into those for general and professional skill sets.

Outsourcing

In outsourcing, companies decide to use a staffing agency not just to provide workers but also to manage the whole of a particular labour-intensive activity, such as warehouse logistics or the operation of a call centre. In this arrangement, the staffing agency is not paid according to the hours the employees work but by performance against key performance indicators, such as the number of packages moved or calls answered.

Career transition

Career transition, also called outplacement, covers support for companies that need to reorganise their workforce, due to mergers and acquisitions or when pressured to restructure as a result of reduced business activity. During the transition phase affected employees will receive training and support to move to the next step in their career.

Talent development

Talent development services include change management solutions and career and leadership development programmes.

Business Process Outsourcing

Business Process Outsourcing refers to the outsourcing of large-scale HR services activities and includes Managed Service Programmes (MSP), Recruitment Process Outsourcing (RPO), and our Vendor Management System (VMS).

Managed Service Programmes (MSP) are used to manage all or parts of a client's contingent workforce. There are clear advantages in outsourcing the management of contingent labour to an HR company: one single point of contact providing transparency, speed, convenience, and cost-effectiveness. An MSP can manage the contingent workforce solutions, programme management, reporting and tracking, supplier selection and management, order distribution, and even consolidated billing.

A **Recruitment Process Outsourcing (RPO)** solution is suited to companies that want to outsource their recruitment process for large numbers of permanent employees. The entire process includes the search for candidates, CV screening, interviews, candidate assessment, offer management, on-boarding, and recruitment administration. An RPO provider can take care of the whole or part of the process or act as a partner for all the permanent recruitment needs. This reduces costs and complexity for clients and ensures that they get the right people, with the right skills, at the right time.

Clients can also keep the management of their contingent workforce in-house by using a **Vendor Management System (VMS)**, a web-based application delivered through a software-as-a-service model. A VMS automates the process of acquiring and managing contingent labour, time/expense, and consolidated invoicing. It provides significant improvements in reporting and analytics capabilities that far outperform manual systems and processes.