

**THE OC&C B2B200
INDEX 2015**



SINK OR SWIM

Why the Tide has
Turned for the
Global Business
Services Sector

KEY FIGURES

4%

Average growth rate of B2B200 in 2014, vs 11% in 2010

0%

Average growth rate of European HQ'ed firms

75%

Growth coming from Asian HQ firms last year

34%

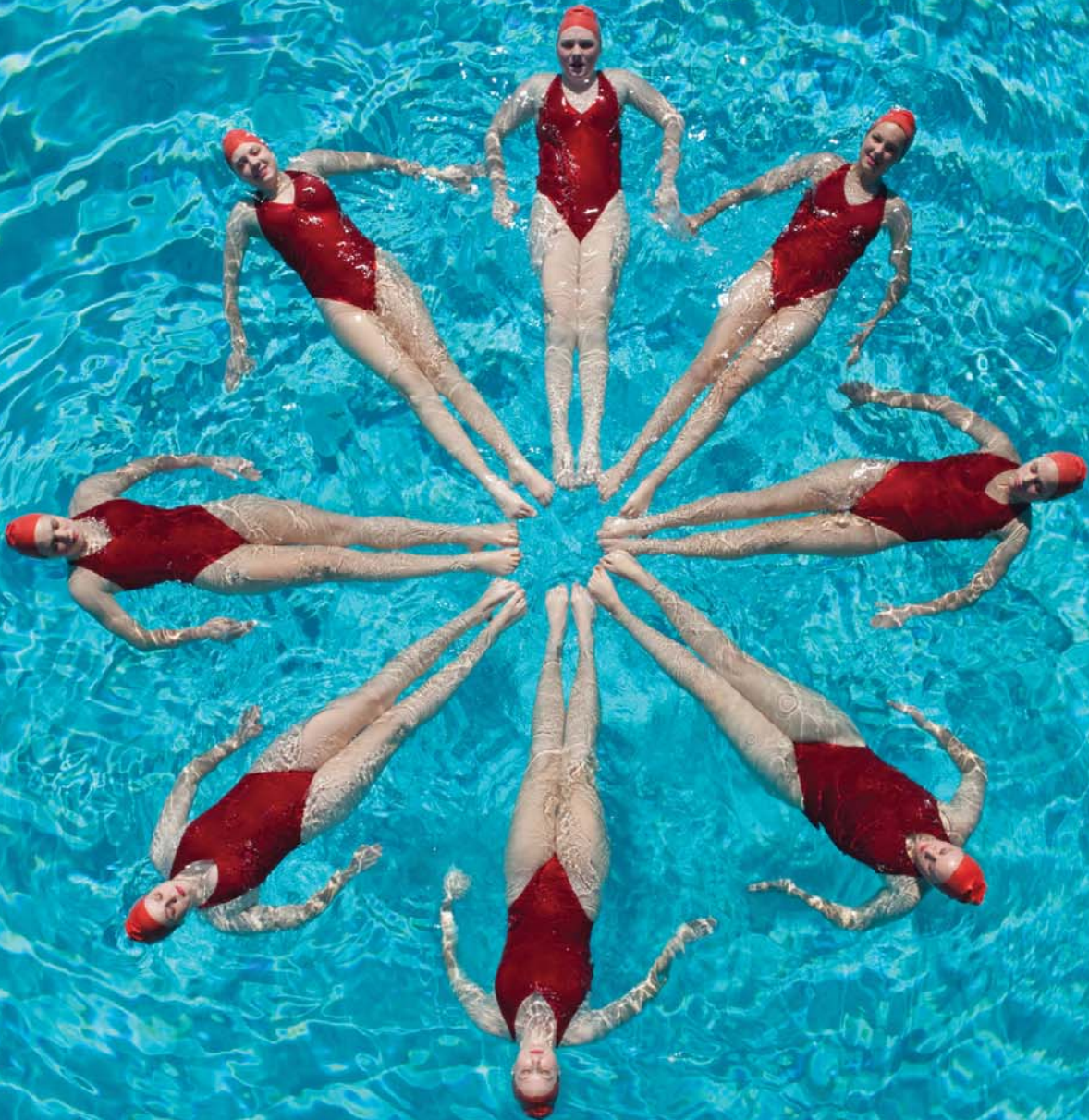
Firms that have seen revenue decline in 2013, vs 19% in 2012

3X

US firms growth rate compared to UK

£420BN

Revenue lost by B2B200 if underperformance continues



ABOUT OC&C

Founded in 1987, OC&C is a leading global strategy consulting firm that brings clear thinking to the most complex issues facing today's management teams. OC&C's client roster includes some of the world's most respected companies throughout the business services, retail, consumer goods, media and private equity sectors.

Within business services, OC&C serves some of the world's leading and most innovative providers across the sectors covered in this report, as well as active investors in the space.

OC&C'S B2B200 INDEX 2015

Too many of the world's leading B2B Services firms are at risk of revenue and margin decline – and only a few are acting with sufficient aggression to pursue their next wave of profitable growth.

Business to Business (B2B) Services is one of the world's largest, and yet most under-reported, markets. However it provides the foundations of a substantial part of the broader economy – as it includes construction, outsourcing, marketing, workplace services – and hence its sheer scale can surprise the uninitiated. Despite often operating in highly fragmented markets, the 200 companies that we focus on in this report alone have combined revenues of £1.5trn (\$2.3trn).

For the UK and many European players, the sector is disproportionately important. For many years, European firms have led the world in delivering innovative outsourcing propositions and sustainable competitive advantage. The sector accounts for almost 30% of the UK economy and over half of its growth. It is one of the UK's primary exports and its medium term vitality will be critical to continued economic recovery.

Traditionally B2B has outperformed other sectors. Resilience during the recession catapulted B2B stocks onto every serious investor's agenda, accompanied by increasing recognition of the certainty provided by contract-based business models with high visibility of forward revenues. Yet in this edition of OC&C's annual B2B Index we find that the sector has failed to respond to the 'Global Warning' we issued in last year's B2B Index report:

1. THE TIDE HAS TURNED

Rising with the tide will no longer guarantee success. Top line growth has slowed every year since 2010 and is now over 60% lower than it was 4 years ago, and margins are being eroded. Stocks no longer outperform the S&P 500, and since mid 2013 have fallen behind.

Mature European firms headquartered in the UK, France and Germany are the drag on the sector. By contrast, Asian-based firms have driven three quarters of growth, and are increasingly the primary engine of the sector, with Chinese construction firms in particular experiencing phenomenal growth.

2. CHOPPY WATERS

So why is being a successful B2B provider no longer plain sailing?

For us, there are several factors making life more challenging:

- Customers are more sophisticated, demanding more for less each year
- Competition is fiercer and providers need to prove differentiation not just scale
- M&A can no longer be relied on to prop up organic growth

However, the significant gap between winners and losers in B2B Services demonstrates that this is not just a market factor – rather, some businesses have not adjusted quickly enough to these headwinds. Continued outperformance in maturing markets demands finely-honed strategy.

3. SINK OR SWIM?

There are still some very strong performers in this sector, and we found common themes that reveal that the "winning formula" in B2B is changing:

- Spotting the next wave and investing in growth
- Giving customers more of what they want
- Making the most of home markets before venturing overseas

For all of these, having the right proposition development and operating platform is key, and the best innovators in the sector are developing a lean approach to 'manufacture' services.

4. FULL STEAM AHEAD

We remain optimistic for the sector – the fundamentals of customer demand and desire to use third party providers remain high, and the normal rules of market competition are taking hold, with a handful of leaders showing the way.

Therefore we would expect a return to outperformance for the companies that follow a focused, customer-centric strategy and have an operating model they are confident can deliver profitable growth.

The prize is substantial here – a collective return to previous growth rates for the B2B200 would mean an extra £420bn (\$650bn) added to the top line by 2020.

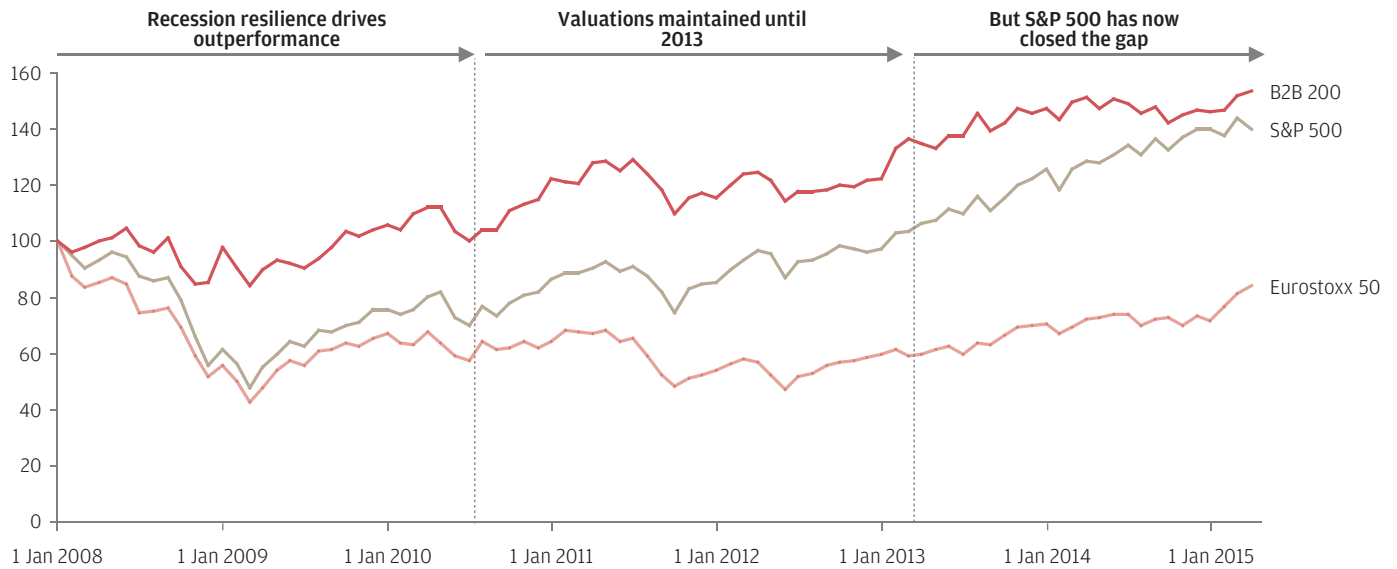
1. THE TIDE HAS TURNED

World leaders in B2B Services have historically outperformed other sectors, both during and since the recession. In the past, Western European firms - and particularly those in the UK - experienced rapid growth as the pioneers of business model innovation. Shares regularly outperformed the broader equity markets.

However, more recently, the tide has turned. Historical share price outperformance is a distant memory as mainstream stocks continue to recover. Share price growth of the B2B200 fell behind the S&P 500 in 2013 and 2014, and this has continued into Q1 2015.

EXHIBIT 1: SHARE PRICE, B2B200 VS GLOBAL INDICES, 2008-15

Indexed to Jan 08=100



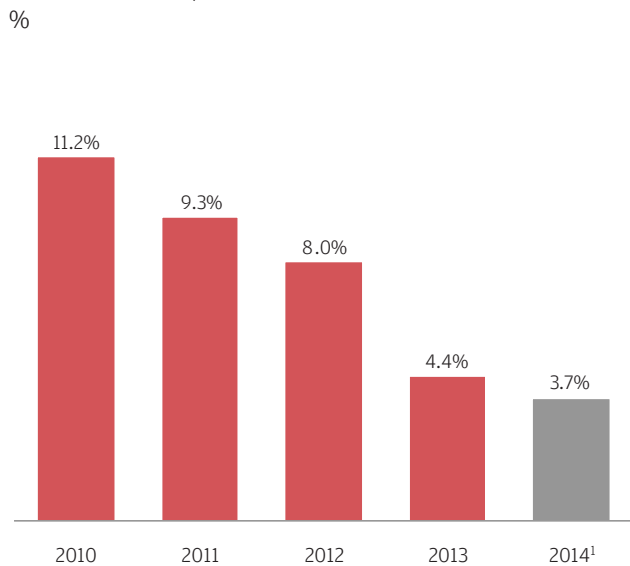
Source: Datastream, OC&C analysis

This reflects a continued dampening of revenue growth, with the index as a whole growing at +4.4% in 2013, compared with +8.0% in 2012 and +9.3% in 2011. Early indications from a more limited sample of companies whose reporting for 2014 is

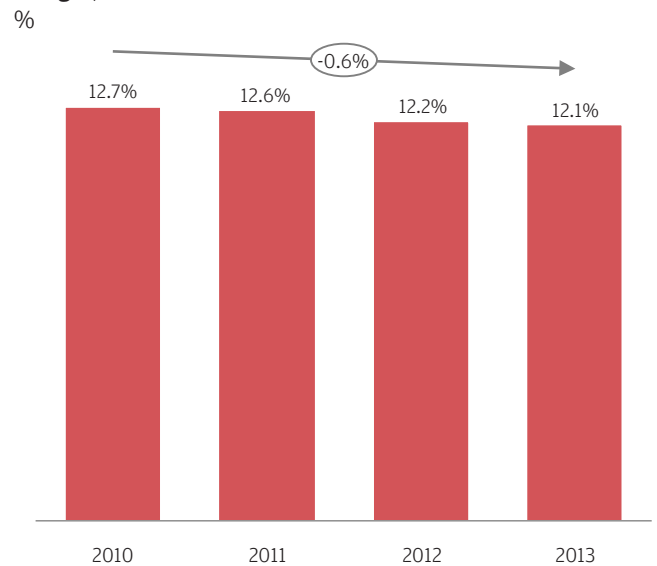
complete (90 companies) suggests a continued slide, to +3.7% growth in 2014. Compounding this growth slowdown, the B2B200 Index continues to experience mild margin decline - from 12.7% EBITDA in 2010 to 12.1% in 2013.

EXHIBIT 2: B2B200 PERFORMANCE EVOLUTION

Revenue Growth, 2010-14



Margin, 2010-13



1. Where data available
Source: BVD, OC&C analysis

The large European markets may harbour almost half of global firms, but they are starting to be a drag on growth, with UK based firms growing at just +1.5% in 2013, and French (-2.1%) and German (-3.6%) cohorts experiencing revenue decline. By contrast, Asian firms are now the growth engine, delivering 75% of growth in 2013. In particular, Chinese firms go from strength

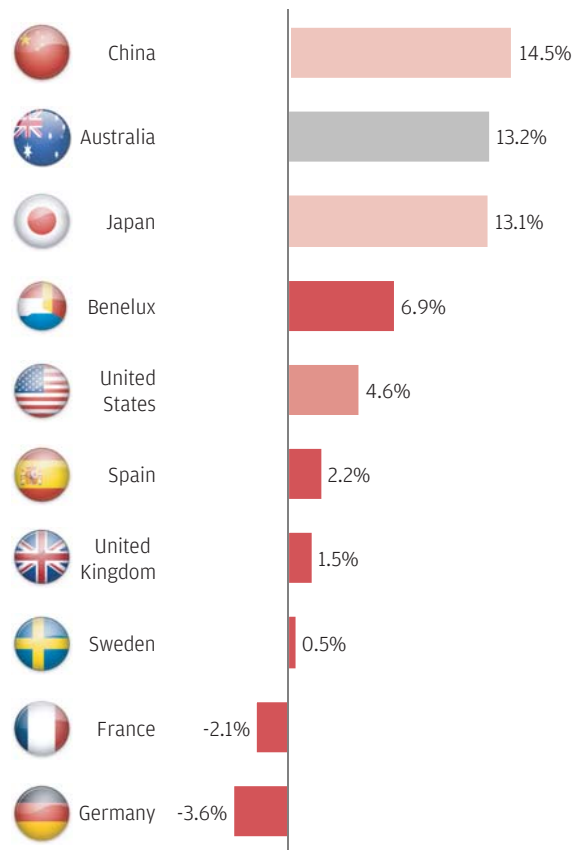
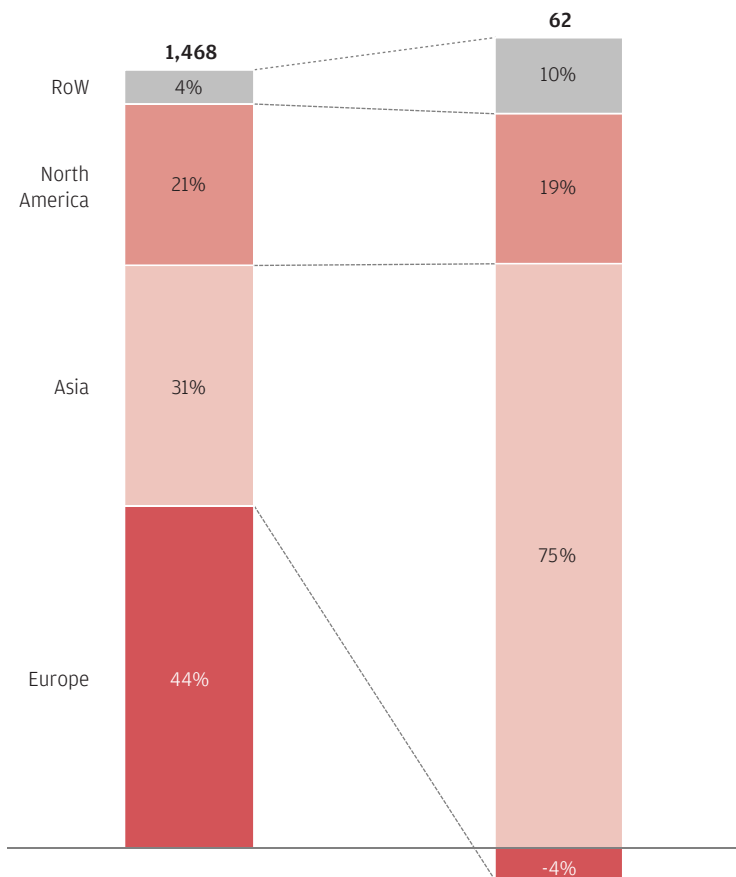
to strength, with c.15% CAGR in revenues over the 2010-13 period, benefiting from a high degree of exposure to the fast-growing Construction sector – for example, Anhui Conch Cement Company grew at 18% CAGR across the period, and Poly Real Estate Group at 30%.

EXHIBIT 3: B2B200 GEOGRAPHIC SOURCE OF GROWTH

Total Revenue, 2013¹
£bn, %

Share of Growth, 2013²
£bn, %

Revenue Growth by HQ Location, 2013²
% CAGR



1. Revenue at end of 2013 calendar year
2. Revenue growth during the course of the 2013 calendar year
Source: B2B200 Index, OC&C analysis

No sector can outperform the others indefinitely, but we would hesitate to conclude that the recent slowdown of the B2B200 Index is an inevitable return to the mean. Demand has not eased, and the gap between winners and losers in the sector is as great as ever – over a third of the index saw revenues decline last year compared to less than a fifth the year before; this is a clear indication that the more focused, decisive, and strategically minded businesses are making active moves to distinguish themselves from the pack.

34% of firms experienced revenue decline in 2013, vs 19% in 2012

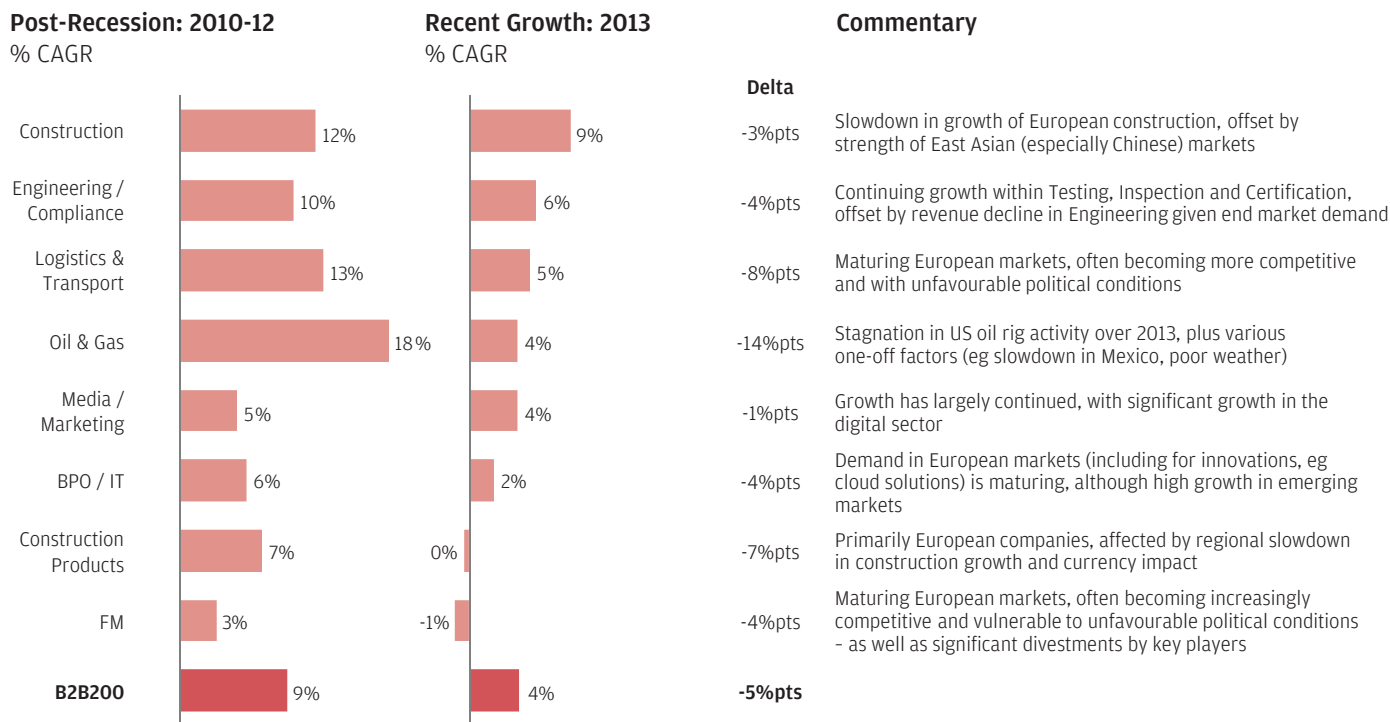
2. CHOPPY WATERS

So why is B2B no longer plain sailing? We see no decline in underlying demand, with appetite to ask third party providers to deliver non-core activities continuing to rise across industries, and end-markets showing robust growth. Rather it is headwinds experienced as demand and supply mature:

- 1. REVENGE OF THE BUYERS:** Organic growth is being challenged by slowing volume growth and more demanding clients with increasingly sophisticated buying approaches putting pressure on price and margin
- 2. A CROWDED PARTY:** Fiercer competition means suppliers need to evolve their propositions and pursue differentiation based on superior customer outcomes not just reputation and scale
- 3. THE LAW OF LARGE NUMBERS:** Using M&A to compensate for lack of organic growth is becoming harder as the scale of acquisitions needed to make a material impact on top line increases and so do the multiples that vendors expect

The slowing down of growth is evident across all sectors, but most dramatically in Oil & Gas (from +18% CAGR 2010-12 to +4% in 2013) – driven by stagnating US rig activity, Mexican slowdown, and the impacts of a difficult hurricane season. This is before considering the more recent effects of the oil price decline. Other big losers were Construction Products (+7% to 0%) and Logistics & Transport (+13% to +5%). By contrast, Construction Services has been more resilient – confirming its post recession bounce back – and was the fastest growing sector in 2013 (+9%), supported by the strength of China and the other tiger economies.

EXHIBIT 4: REVENUE GROWTH BY SECTOR



Source: BvD, OC&C analysis

3. SINK OR SWIM?

Looking at the success of the 20 top performers (see Exhibit 7) and drawing on OC&C's experience when working with some of the best and most innovative B2B Services players, we can identify a number of key themes that unite the winners in this market:

A: SPOTTING THE NEXT WAVE AND INVESTING IN GROWTH

Despite selling directly to other businesses and not consumers, the best B2B companies keep their fingers on the pulse of broader market developments. Being first mover against emerging consumer trends can position firms as innovation centres and thought leaders.

As clients play catch-up with what consumers want, marketing firms like Publicis have invested heavily against their digital capabilities, making technology-enabled marketing a central pillar of their growth strategy that aims to account for 60% of revenue by 2018.

In the same way, facilities management provider Dussmann has quadrupled investment in its nursing apprenticeship scheme and has become the first German caterer to offer vegan meals, responding to demographic and attitudinal consumer trends.

CASE STUDY: ASSA ABLOY

Assa Abloy was formed when Assa AB was detached from Swedish security firm Securitas AB in 1994, and includes many household names (Yale, Lockwood and Sargent).

Its continued success can be put down to:

- Product leadership - named in Forbes' "World's Most Innovative companies" two years running, Assa continuously refreshes its range to meet new customer demands, with 30% of sales coming from products launched in the last 3 years
- Growth in the core - 75% of sales are from core markets, and the majority of revenue comes from products for existing buildings
- Targeted M&A - more than 150 acquisitions have been made since 1994, as a means to access new technologies, complement existing product offerings, or enter new geographies

Sales from Electronic and Automation Products

%



CASE STUDY: SCHLUMBERGER

Schlumberger is a leading global supplier of technology, integrated project management and information solutions to clients in the oil and gas industry.

Schlumberger aims to "surround the customer" by servicing the entire lifecycle of oil and gas reservoirs in three business segments

- Reservoir Characterisation finds and defines resources
- Drilling designs and manufacturers drilling equipment and support services
- Production Group services the production, monitoring and completion of the reservoirs

Their Integrated Project Management (IPM) service enables them to offer clients services in a consolidated package rather than a collection of point solutions.



B: GIVING CUSTOMERS MORE OF WHAT THEY WANT

Truly customer-centric B2B Services firms succeed because they use their initial 'beachhead' contract to develop an intimate and potentially unique understanding of key clients' business needs throughout their business activities. This allows them to appreciate the wider universe of customer needs and, where there is an attractive opportunity, develop additional services that can be sold, systematically growing share of wallet over time.

Schlumberger is a global oilfield services customer that quite overtly aims to 'surround the customer' by providing a full suite of services, and in so doing has grown revenues by 15% pa since 2010.

M&A has a role to play in this as well - the most successful acquisitions are those that have a clear benefit to customers, in terms of both capabilities and footprint. Bureau Veritas, a leading international TIC provider, bought Maxxam in December 2013 to strengthen its North American presence and provide a more complete offering to its Energy and Life Sciences customers.

C: MAKING THE MOST OF HOME MARKETS BEFORE VENTURING OVERSEAS

In last year's B2B200 Index report, 'Global Warning', we highlighted the double edged sword of global ambition. Firms that have pursued 'flags on the map' without due appreciation for strategic logic have suffered dampening of growth and underperformed their sectors.

This trend has only become clearer since then. 'Domestic champions', which realise more than 95% of their revenues in their home countries, have experienced the highest rate of revenue growth across 2010-13 (+14% CAGR) and been the most insulated from margin decline (+0.6% delta). By comparison, 'globetrotters' - which make more money abroad than at home - have grown at only +6% CAGR and suffered margin decline of -0.8% delta.

CASE STUDY: ALSOK

Alsok is one of the two largest security providers in Japan, providing security systems for homes, offices, vehicles and business networks.

It has developed new added value services through a combination of NPD and targeted acquisitions such as

- Cyber attack prevention solutions
- ALSOK-GV, a security system combining image sensors and state of the art IT systems
- The purchase of Japan Facilio, an equipment installation business
- Expansion into the fast-growing nursing care business

With a strong foothold in Japan, Alsok has expanded overseas but has focused on customer-led expansion opportunities, providing security services to Japanese companies operating in ten ASEAN countries.

Operating Profit, 2010-14

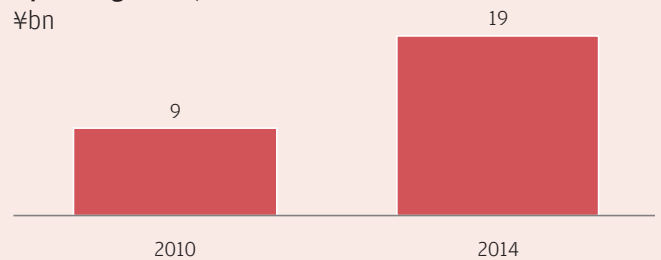
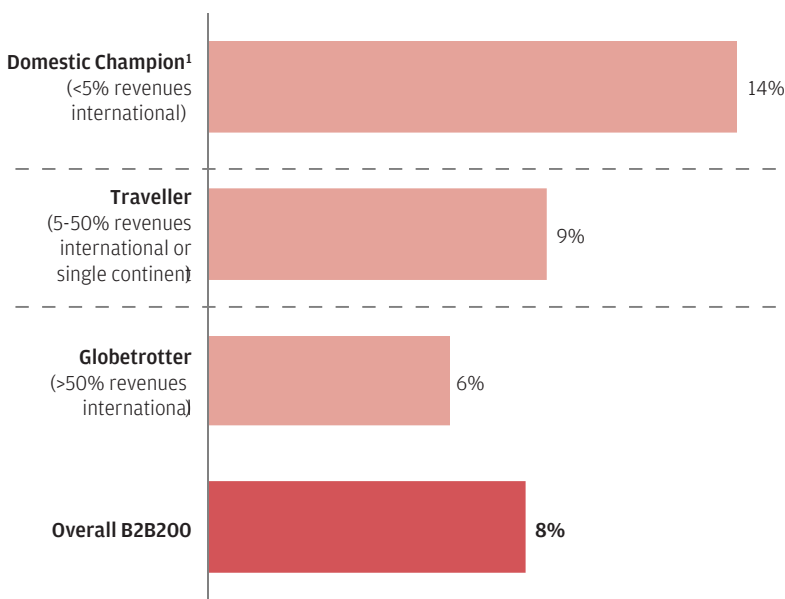
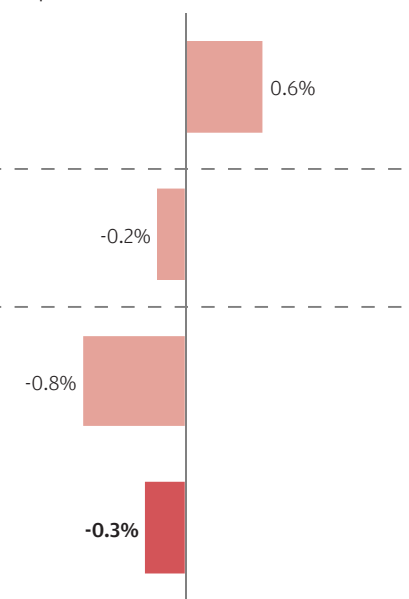


EXHIBIT 5: B2B200 COMPANY PERFORMANCE BY LEVEL OF INTERNATIONAL EXPOSURE

Revenue Growth, 2010-13 % CAGR



Average Margin Delta, 2010-13 %pts



1. The higher performance of domestic champions is not driven by size (ie smaller companies growing quicker), as this pattern still holds within individual size tiers
Source: B2B200 Index, OC&C analysis

4. FULL STEAM AHEAD

So what does the future hold? B2B Services remains one of the strongest sectors of the global economy, and its cyclical resilience makes it a reliable long term investment. Yet recent indicators are moving in the wrong direction, and it is critical that the leaders in this sector recognise the strategic imperative.

Without action to restore growth to previous levels, the B2B200 will leave a collective £420bn (\$650bn) of sales on the table between now and 2020. In the UK alone this amounts to £10bn (\$15bn) in the same period.

B2B Services remains a fundamentally attractive place to be, but CEOs should act now to navigate waters that will otherwise only become more turbulent.

And how can they best do this? We believe all B2B Services businesses need to make sure they have watertight answers for five key questions:

£420BN

Revenue lost by the B2B200 if under-performance continues to 2020

FIVE STRATEGIC QUESTIONS EVERY B2B SERVICE PROVIDER MUST ANSWER



What am I famous for?

- What fundamental client needs am I set up to resolve?
- Which end customers do I serve?
- How do I deploy my resources to solve those needs?
- Why am I better for clients and end-customers than anyone else? Do my customers know this?



Which accounts are going to drive profit growth?

- What determines an attractive client? Who are my key accounts?
- How do I actively demonstrate prioritisation of the most attractive clients in the way resources are allocated?
- What systems and processes are in place to ensure key account retention and growth?



How is consistent, profitable delivery assured?

- What processes are consistently applied across the contract/project estate?
- How would an outsider know that they were being served by me?
- What leading KPIs are used to forecast contract / project / customer profitability?



How does the corporate centre add value?

- Why are contracts/business units more valuable to me than they would be to my competitors?
- How does the operating model foster and lock-in innovation?
- What drives M&A target prioritisation and integration?



What footprint should I have?

- Where are my most attractive customers based?
- How do I organise to serve them most effectively?

APPROACH

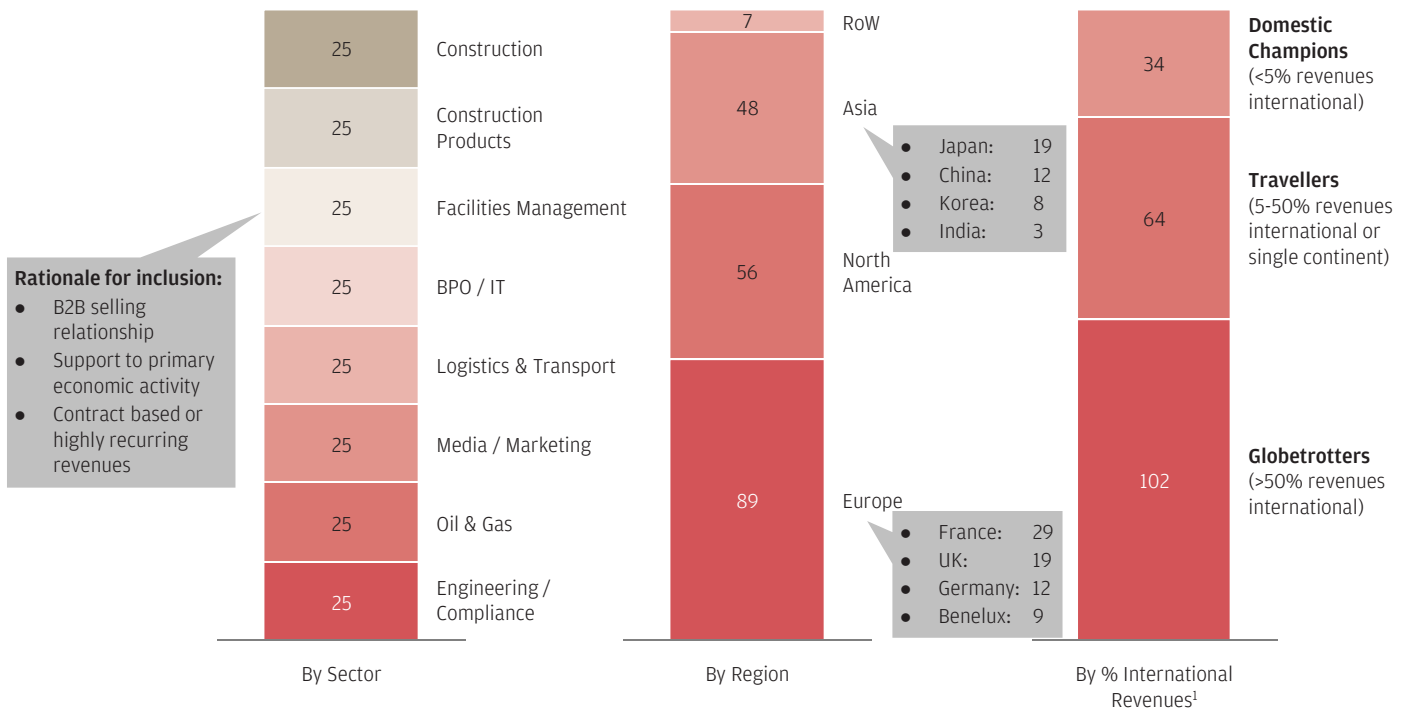
Every year, OC&C Strategy Consultants compiles the B2B200 Index comprising the world's largest and most successful companies in the B2B Services sector. We have gathered financial results for the past five years to 2013 (the latest available year for a comprehensive dataset) and analysed performance at an aggregated level, before interrogating how it has varied by industry, by region, and by level of international exposure. Because we work with many of the most successful B2B Services companies in the world, we also have insight into how the winners in this sector have achieved and maintained their success, and how this translates into a winning formula for the sector.

Our proprietary B2B200 Index is comprised of 25 of the largest companies in each of 8 industries that make up the core B2B Services market: Construction, Construction Products, Facilities

Management, Business Process Outsourcing (BPO) & IT, Logistics & Transport, B2B Media & Marketing, Oil & Gas, and Engineering & Compliance. We continue to focus on industries where the primary activity is outsourcing or service provision to support value creation and which have contract-based or highly recurring revenues. As such, we do not include some sectors with B2B sales such as Publishing, Financial Services, and Manufacturing (and we have removed HR & Recruitment firms from the list this year for the same reason).

The B2B200 Index is a diverse group; a quarter of the companies are headquartered outside of Europe and North America, and there are clear distinctions by level of international ambition (from 'domestic champions', which concentrate predominantly on their home markets, to 'globetrotters', for which more than half of all revenues are international).

EXHIBIT 6: COMPOSITION OF B2B200 INDEX



1. Revenues generated outside of the country where the company is HQ'd
Source: BvD, OC&C analysis

TOP 20

We have identified a group of 20 consistently high performers within each subsector, who show consistently strong revenue growth and strong profitability performance relative to their peers. The group ranges in size from Power Construction Corporation, one of several state backed Chinese firms that are

increasingly the engine for the overall B2B200 Index at £14.0bn, to Eurofins Scientific, a mid-sized Luxembourg-based TIC (Testing, Inspection, and Certification) player. Only one – Enesco, an M&A-hungry oil and gas services provider – is UK-headquartered.

EXHIBIT 7: TOP PERFORMERS

		Sector	HQ	Revenue (£bn 2013)	Growth (% CAGR 2010-13)	EBITDA (% 2013)	Growth Drivers
Europe	Publicis	Media / Marketing	France	5.8	11%	18%	Strategic move towards digital marketing through both organic and acquisitive growth
	Assa Abloy	Construction Products	Sweden	4.6	9%	16%	NPD pipeline driving organic growth; strong acquisitive growth in mature and emerging markets
	Enesco	Oil & Gas	UK	3.2	26%	49%	Growth driven by M&A
	Rockwool	Construction Products	Denmark	1.4	8%	16%	Targeted acquisitions to develop integrated building solutions to boost cross sell
	Eurofins Scientific	Engineering / Compliance	Luxembourg	1.0	17%	15%	Synergistic acquisitions combined with best in class account management
North America	Cognizant	BPO / IT	USA	5.7	28%	24%	Drive growth in areas of new regulation (FS, healthcare) and expand global footprint
	Alliance Data Systems	BPO / IT	USA	2.8	22%	30%	Strong organic growth driven by demand for consumer marketing data
	Clean Harbors	Facilities Management	USA	2.2	34%	14%	Major acquisition in adjacent market
	Echostar	Media / Marketing	USA	2.1	15%	20%	Unique position as integrated distributor in satellite, broadband and video distribution
	Cerner	BPO / IT	USA	1.9	15%	28%	Major acquisition on top of strong organic growth due to strong demand for healthcare IT solutions
	Seventy Seven	Oil & Gas	USA	1.4	35%	17%	Driven by growth in fracking
	Stericycle	Facilities Management	USA	1.4	16%	30%	Rapid acquisition at home to expand service offerings and expansion abroad
	Waste Connections	Facilities Management	USA	1.2	13%	34%	Domestic acquisitions in new or adjacent markets
Asia	Power Construction	Construction	China	14.0	18%	11%	Strong growth in Chinese construction market
	China Vanke	Construction	China	12.3	29%	20%	Strong growth in Chinese construction market
	Poly Real Estate	Construction	China	8.7	42%	20%	Strong growth in Chinese construction market
	Anhui Conch Cement	Construction Products	China	5.6	22%	31%	Strong growth in Chinese construction market
	Infosys	BPO / IT	India	5.0	23%	33%	Benefited from US recovery and strong dollar as well as growth in value added sectors
	HCL	BPO / IT	India	2.5	26%	22%	Strong US results and rupee depreciation
RoW	Naspers Limited	Media / Marketing	South Africa	3.6	22%	21%	Exposure to e-commerce and internet in China, European e-tailing acquisitions

Source: BvD, Company Websites, OC&C analysis

Belo Horizonte

Düsseldorf

Hamburg

Hong Kong

Istanbul

London

Mumbai

New Delhi

New York

Paris

Rotterdam

São Paulo

Shanghai

Warsaw

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