

L'Oréal

An Innovative Approach to Indirect Procurement



L'Oréal addressed procurement of indirect categories through a “co-sourcing” arrangement, a unique blend of outsourcing and consultancy. The project, now fully embedded in the organisation, showed real innovation, and required strong project and operational management, along with stakeholder and team management skills. It has delivered measured and validated bottom-line savings, a range of softer benefits, and has raised the profile of procurement within the organisation.

Introduction

With iconic cosmetic brands, including the Body Shop in the UK, revenues of €20 billion last year, an impressive growth record and global reach, L'Oréal are one of the best known and successful businesses in the world. Not surprisingly, the culture is very growth and revenue focused, but has remained devolved with highly independent Business Units that stay close to the customer. In terms of manufacturing, and unusually for the cosmetics industry, 95% of L'Oréal branded products are still manufactured internally. Those two factors are relevant to this project; central functions like procurement have very limited mandate to force compliance, and there is little historical experience of strategic outsourcing at L'Oréal.

The co-sourcing project – background and strategy

Procurement of direct materials (ingredients, packaging) has been strong for many years at L'Oréal, but procurement of indirect categories (e.g. FM, HR services, IT and Telecoms, Travel) has only been addressed seriously in the last 5 years, despite the fact that hundreds of millions of Euros are spent each year in these areas.

Laszlo Koos, an experienced L'Oréal Finance Executive, took on the role of Head of Indirect Procurement in 2007. His small team found it was a battle to gain influence across the diverse and scattered spend, particularly given the L'Oréal culture of local power. But as the team addressed virgin procurement territory, benefits started to flow.

Once the “quick wins” had been delivered however, Koos faced a problem. He was convinced there was more benefit to go for, but even if he could persuade senior management to invest in new recruits for indirect procurement, which still didn't have a very high profile, finding real experts for a wide range of disparate categories would not be easy. Measuring the benefits was also proving difficult; procurement at L'Oréal don't handle transactions, so making sure negotiated savings turned into bottom-line benefits was also a challenge.

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He considered a traditional model of bringing in consultants, but building the business case for what would inevitably be a major investment would not be easy, and he was concerned about the sustainability of the typical consulting approach. What would happen when the consultants moved on? But equally, another option, that of a full outsourcing of indirect procurement, was so counter to the L'Oréal culture, it seemed unlikely it would be accepted. And outsourcing categories that L'Oréal were not yet covering fully would bring another danger – how could they be an intelligent customer of an external service provider without understanding the area themselves?

But before deciding on a strategy, L'Oréal benchmarked current performance. A formal study of best practice indirect procurement was commissioned, allied with informal networking with other major blue-chip firms, including taking advantage of networking opportunities such as Procurement Leaders' events. That all suggested that indirect spend did indeed present a major opportunity, and there was still considerable potential for L'Oréal. But the review also confirmed that developing the expertise internally to fully exploit these categories was likely to take considerable time, effort and money.

So L'Oréal decided on an innovative approach, which they called “co-sourcing”. That would combine elements of consulting and outsourcing, with a strong emphasis on risk and gain sharing. Unlike a consulting approach, and in line with a traditional outsource, the provider would take line management responsibility. But there would be no transfer of staff; instead, the provider team would work alongside existing L'Oréal procurement staff. The provider would also take significant risk in terms of linking reward to real, measurable bottom-line savings, and would commit to a skills transfer programme. Finally, the provider would be engaged on a relatively long-term basis (3 years): but with measures in place to ensure that the contract could be re-competed at that point.



Implementation

Looking for the right provider to meet this innovative and hybrid requirement took time, but after a lengthy selection and due diligence process, Xchanging plc were chosen as the co-sourcing partner.

Through this period, the procurement team also worked hard to get internal stakeholders on board. The culture of L'Oréal means that it is impossible to force business unit heads to follow a procurement strategy – they must be persuaded. The gainshare basis of the contract was a powerful tool in achieving that, allied with the robust savings measurement process, which meant that senior management could see that they weren't going to be paying for something that didn't really deliver.

From August 1st 2011, Xchanging staff took the lead on day to day procurement, sourcing and contract implementation / management across the range of indirect spend, bringing deep category expertise where appropriate. Their reward is very strongly based on a gainshare principle, with considerable focus on accurate tracking of savings, validated by the Finance function. As Koos explains,

“It has to hit the bottom line at point of invoicing to count as a saving, not merely be identified when we contract. That means that Xchanging are motivated to be much more involved with contract implementation, compliance and management than we would see with most consulting or outsourcing providers”.

Indeed, Koos considers Finance to be a client of procurement, along with the budget holders; they have to be satisfied and validate savings.

Savings of €4 million have been delivered over three months

Another key audience was current indirect procurement staff. They might have been worried by an external firm coming in – but a programme of communication reassured them that while their roles would change, they were not threatened by this move. **“They would be internal ambassadors and managers of the spend rather than handling tactical work”** says Koos. Their focus would be on engaging with stakeholders, ensuring that requirements and demand issues feed into the sourcing programmes, and strategically managing their categories.

The young indirect procurement team were fully involved with the provider selection process, providing input to statement of works and the selection process. Senior procurement management was honest – **“we told the team that we didn't know every detail in the early days, but their roles would change, and become more strategic, with greater visibility at senior levels in the company”.**

Benefits

Whilst still early days, savings of €4 million have been delivered over three months, with a strong savings pipeline identified. Savings of over 10% of spend are forecast within three years across these categories, and while the initial implementation covers 5 European countries, there is potential for further extension around L'Oréal subsidiaries.

The additional focus and resource is enabling L'Oréal to harmonise both specifications and policies across indirect categories, which is leading to benefits beyond simply lower prices. For example, mobile phone tariffs are being rationalised and harmonised, and in areas such as HR or Travel, alignment of policies can bring greater fairness as well as savings.



This is a **human journey** as well as a technical project

Benefits

Baselining methodology provided by Xchanging has also helped to get better spend and specification visibility, and the reporting processes gives ongoing sight of consumption and spend. Xchanging have also brought knowledge in areas such as KPIs and SLAs, which is driving better supplier performance and quality. L'Oréal has also introduced satisfaction reporting from end-users; at least once a year, they will assess the quality of both supplier performance and that of the indirect procurement operation service.

The profile of procurement has also increased as a result of the initiative. The project and ongoing savings are validated at Board level, and were mentioned in the CEO's last results presentation to financial analysts – a first for indirect procurement. All 27 Business Unit heads have signed up to the programme – a remarkable level of buy-in given the culture of autonomy in the firm. This project may even be subtly altering that culture. "There are signs that the success of this project is making L'Oréal think in a more open manner about outsourcing generally, a significant change to the whole DNA of the company" (Koos).

Long term sustainability

The strong focus on team communication and motivation that was seen in the planning period has continued. There have been innovative team-building activities with Xchanging and L'Oréal staff – making a "pop video" together as part of one session, for instance! This has ensured positive relationships between L'Oréal and Xchanging staff.

"This is a human journey as well as a technical project", as Koos explains.

The operating model retains the involvement of internal staff, which means that L'Oréal will be an intelligent customer of both Xchanging and key indirect suppliers. This also ensures that the co-sourcing contract can be re-competed if required in 3 or 4 years time. The model also sees skills transfer from Xchanging category experts to their L'Oréal colleagues, which again supports both the effective day to day operation, and gives L'Oréal options for the future.

Finally, the focus on real bottom-line savings means that all parties are looking for sustainable contracts and supplier relationships; there is no point in finding an apparently impressive "saving" where the supplier cannot sustain the offering or does not perform. So the gainshare methodology also supports a sustainable long-term view of supplier performance.

Six months into the co-sourcing arrangement, the indications are all positive, and L'Oréal are confident that their innovative approach is taking them towards true world-class performance in terms of Indirect Procurement.

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