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Towards Strategic Sourcing: The Unilever Experience

Jamie Anderson and Marie Woolley

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In September 1999 Unilever announced its “strategy for growth”, a strategic plan to increase annual top-line growth to five per cent and operating margins to 15 per cent by 2004, a marked acceleration on earlier targets.

Strategy for growth was built on a refined and focused portfolio of 400 brands (reduced from more than 1,600) supported by an equally targeted procurement and manufacturing base. Niall FitzGerald, co-chairman of Unilever Group, declared: “We are determined to deliver a step-change in Unilever’s growth rate and further improve its operating performance. We are pursuing changes that mobilise the entire organisation behind our brands to drive growth and margin improvement”.

Since the mid-1990s Unilever had seen consistent improvements in operating margin. These improvements owed much to the adoption of regional manufacturing strategies and a consequent programme of plant rationalisation. Under strategy for growth Unilever planned to continue this rationalisation with some 150 key manufacturing sites targeted for investment and development. These sites would be selected from among 380 existing plants worldwide with the overall aim of servicing the 400 brands in a cost-effective way. But strategy for growth went beyond manufacturing consolidation.

An important extension of Unilever’s new strategic approach was a major programme to align international procurement activity with the requirements of the 400 brands. The procurement function was to be reorganised, with an emphasis on reducing component complexity and buying on an international scale.

While some consolidation of purchasing had already taken place across Unilever’s various operating companies, this had been undertaken on a somewhat ad-hoc basis throughout the 1980s and 1990s. There was a mix of purchasing initiatives across local, national and regional levels that resulted in a number of inefficiencies. Outside of purchasing production-related materials and packaging, Unilever employed few professional buyers and lacked a systematic way of tracking spending across its different operating companies. (Indeed, by early 2000 the main area of purchasing consolidated internationally was media advertising.)

The decentralised legacy

This situation was, in many ways, a direct outcome of Unilever’s long-established decentralised structure. For decades, local Unilever managers exercised considerable power in tailoring international brands to local markets and developing local brands based on local market requirements. The unifying elements

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were a desire to succeed in local markets, a common set of management principles and a shared corporate culture. To cement this, Unilever headquarters rotates top management between its various subsidiaries and promotes the transmission of best practice.

The Unilever corporate centre traditionally provided overall strategic leadership and a framework of policy and values, set priorities and targets, challenged assumptions and goals, agreed and monitored business group strategies, and delivered corporate leverage in areas where the company’s scope and scale could add real value. But the headquarters did not interfere in operational matters. Over time, purchasing had evolved as a largely operational issue.

Under the new strategy, this decentralised approach to purchasing was set to change. The question facing Unilever executives was whether its traditional approach to purchasing could meet the bold forecasts of the strategy for growth.

The announcement on brand consolidation was quickly followed in February 2000 by the launch of a series of linked initiatives in areas such as e-business, supply chain management, and knowledge and information management systems. The objective was to align the entire organisation behind broadened growth ambitions. Under-performing businesses or those that no longer fitted as part of core strategy were to be reorganised or divested.

The total cost of the strategy for growth programme was estimated at £3bn over five years, yielding annual savings of £1.5bn. In addition, the company expected a further £1.6bn savings from the move to global buying. Unilever estimated that the programme would lead to a reduction of around 25,000 jobs over a five-year period, primarily in Europe and the Americas, representing approximately 10 percent of its total workforce.

A new organisational structure was announced in January 2001 with the creation of two global divisions – Foods and Home and Personal Care (HPC). The new organisation removed some of the autonomy of the local operating companies to group headquarters and global divisions.

Work on improving the efficiency of its procurement and strategic sourcing had been going on for some time. Unilever headquarters created a strategic supply chain management group during 1998 to initiate and drive some of the manufacturing consolidation. In early 1999 a strategic sourcing sub-committee was created to explore the potential impact of strategic purchasing.

**Evolving procurement and strategic sourcing**

For sourcing to be strategic, the sub-committee recognised that Unilever would need to focus on the total cost of ownership rather than price alone. This would involve detailed evaluation of suppliers against critical attributes such as technology, quality, delivery, responsiveness, services, innovation as well as cost.

Furthermore, to successfully manage expenditure Unilever believed that its sourcing would need to become an enterprise-wide process addressing all “quote”-based procurement activities. For effective sourcing, Unilever purchasing professionals would need to be able to develop abilities to track and subsequently bundle purchases, evaluate business constraints and assess the optimum economic value from suppliers.

One area that was quickly identified as having the potential to offer significant cost savings was non-production purchases. Analysis suggested that a significant attempt to consolidate and streamline the purchasing of non-direct inputs could cut as much as 25 per cent from the non-production items (NPI) cost base alone.

A procurement project group was created in North America in mid-1999 to conduct a more detailed examination of the opportunities and to identify potential vendors to partner with Unilever in implementing strategic purchasing of non-production goods. North America was chosen because was Europe was widely perceived as lagging in the implementation of strategic sourcing and particularly the use of web-enabled procurement. Even so, a European group was formed at the same time to consult with North American colleagues.

Throughout late 1999 and into 2000 the procurement project group examined specific categories of spend that might be moved to a strategic sourcing and also explored the systems that could be adopted to make a globally consolidated purchasing system function efficiently.
Any online system had to offer scalability, common standards, ease of implementation and compatibility with legacy systems. In early 2000 the sub-committee entered the final stage of reviewing a number of competing systems, eventually choosing the e-procurement package of software vendor Ariba.

According to Charles B Strauss, president of Unilever Home and Personal Care North America: “We knew that to have a world-class supply chain we must have a highly efficient and effective system for all our purchasing needs. The Ariba solution provides an extremely user-friendly commerce environment and can easily be updated to reflect changing market conditions”.

The Ariba system would eventually aim to provide Unilver with an online e-commerce infrastructure to electronically aggregate corporate purchasing from each employee desktop. One goal would be to enable every Unilever employee involved in buying items to select from a catalogue of previously agreed sources at volume-negotiated pricing. But the broader aim would be to identify the lowest total cost solutions – not just the best price but also price related to areas such as customer service, innovation and creativity.

The Ariba procurement system selected by Unilever comprised a multitude of spend-management capabilities and features to enable the company to centrally manage all workforce procurement processes using a single Internet-based platform.

**Plan-to-pay functionality**

The core system to be implemented by Unilever offered plan-to-pay functionality with requisitioning capability, leveraging integration with static catalogue and dynamic catalogue procurement processes. The system would also enable simple integration of negotiated contracts to provide the visibility needed to track and manage end user compliance, as well as online invoice reconciliation to speed up and streamline the reconciliation and payment cycle.

The solution would also provide the ability to “slice and dice” spend data and focus on specific problem areas. Pre-built reports would allow the viewing of spend by commodity, spend by supplier, spend by department, as well as supplier and compliance efficiency.

From this data Unilever believed that it would be able to consolidate purchasing volume to enhance scale and to drive out non value-added costs, and create automatically the information base to manage materials purchased. Additionally, Unilever businesses would be able to create their own custom reports to meet their specific needs. The Intranet-based Ariba procurement solution to be provided to Unilever would eventually aim to provide the group with an online e-commerce infrastructure to electronically aggregate corporate purchasing from each employee desktop, and would direct spending to preferred suppliers and B2B marketplaces.

The initial implementation was launched in June 2000 with a select number of Unilever facilities representing...
a cross-section of disciplines: headquarters; research and development; and manufacturing. The pilot involved 240 buyers across North America.

The pilot study revealed that the new system simplified the buying process considerably, virtually eradicated paperwork and significantly reduced purchase order errors. The vast majority of users expressed satisfaction with the system over previous purchasing methods. But perhaps most importantly, Unilever had for the first time been able to undertake detailed analysis and reporting of purchasing spend across categories and companies within the group.

It also revealed a number of challenges that Unilever would face as it expanded e-procurement globally. Some users had expressed dissatisfaction with the lack of choice involved with the new system while others were uncomfortable with the electronic interface after years of using paper catalogues. Some of the companies’ suppliers involved in the pilot already had online purchasing systems in place and in some cases did not discourage Unilever buyers from continuing to use these systems. Indeed, there were reasons to do so given that the prices on these supplier sites were typically higher than those offered through catalogues negotiated specifically for the Ariba project. From its pilot, Unilever soon recognised that the global rollout of e-procurement would not just be about technology delivery. Change management would also become an important element of any successful implementation.

The European experience

Expansion of the Ariba system to Europe began in January 2001, when Unilever signed a global license with the software vendor. Tim Cooper-Jones, a Unilever executive with more than 23 years experience within various parts of the company, was given responsibility to spearhead the implementation of e-procurement across European operations.

Unlike the situation in the US, where the various Unilever companies shared a common language and similar operational processes, European operations posed a much more complex situation. In addition to
multiple languages, there were various local, national and regional buying groups with long-term relationships with a multitude of suppliers.

In some cases, these groups believed strongly in their abilities to negotiate favourable purchasing arrangements and saw little need to change. According to Cooper-Jones: “One of the first challenges for our team was to articulate the business case to our various operating companies. It was very much a process of selling the US pilot experience and pointing to the tangible benefits in terms of bottom-line impact. Support from senior executives was critical here, as was the widespread dissemination of information about our successful pilot in the US. To this end, individuals who had been involved with the North American trial visited Europe and we also launched a newsletter at the end of 2000 to spread good vibrations about what was happening”.

A European vice-president for strategic sourcing was appointed in late 2000 and a group of supply team leaders and teams for various spend categories were working on priority areas for the European e-procurement launch. The categories identified were predominantly in areas such as office and laboratory supplies and plant consumables.

Unilever recognised that governance would be a key issue in rolling-out a pan-European purchasing initiative. The Unilever Europe Committee and Business Groups set up a NPI steering committee to direct the overall NPI initiative and enable communication across group businesses.

An NPI support organisation was also created to provide vision, framework, structure and plans to professionalise NPI sourcing in Europe with a small dedicated support staff. This group would be responsible for owning the overall plan and targets for NPI procurement. Reporting to the support organisation was the NPI strategic sourcing team responsible for developing a sourcing strategy, selecting and negotiating with suppliers, and aiding with implementation. Based on the pilot experience, the company also established an Ariba competence centre to provide a top-down approach to wider implementation.

A pilot launch was planned for Europe to build on the US experience, with Unilever’s German Home and Personal Care (Lever Faberge) and the London corporate centre chosen as the initial test locations. The pilot went live in April 2001 with 40 users, gradually increased to between 80 and 100 users over a period of several months. As was the case with the North American experience the European pilot was acknowledged as a success, creating more widespread enthusiasm for e-procurement adoption in other parts of the company.

To widen the pilot to a greater number of countries and hoping to build on the excitement surrounding the Germany and UK trials, Unilever looked for other categories to broaden implementation. Ice-cream cabinets were identified as a major spend category that could be moved to the Ariba system on a pan-European basis. Unilever required approximately 100,000 standardised but configurable cabinets across Europe each summer and already had an existing base of 19 suppliers.

**Cabinet trial**

Following a short pilot scheme in Italy, ice-cream cabinet procurement using Ariba was rolled out to all of the other European markets plus Turkey and Israel. By the end of 2001 more than €46m of category spend on cabinets had been processed through the system. For the first time, Unilever executives had real-time detailed data on cabinet spend across their businesses and the implementation team also believed that both purchasing and transaction costs had been significantly reduced due to unified strategic sourcing negotiations and simplified ordering processes.

The trial also showed that the Ariba system was robust enough for a large-scale category implementation across different countries.

Another category implemented during 2001 involved the online procurement of point-of-sale (POS) promotional equipment for Unilever’s chilled tea products. But unlike the experience with ice-cream cabinets, online purchasing of POS equipment proved frustrating because suppliers frequently changed specifications and pricing of their products. The experience showed that prices and specifications needed to be agreed before the system went live. Updating of catalogue pricing
on the Ariba system was certainly possible but frequent changes added complexity.

By the end of 2001 the programme had been rolled out to more than 350 users across Europe, with 85 per cent utilising the system and an average 2.7 orders per month. All major office supplies are now purchased through the Ariba system across all Unilever businesses in Germany and at approximately half of the businesses in the Netherlands and the UK. The corporate centres in both Rotterdam and London were also online. By the end of 2001, total European spend through the Ariba system exceeded 454m against a target for the year of 48m. This far exceeded the expectations of Unilever executives and also surpassed Unilever’s e-procurement in the US, which reached approximately 434m.

The financial impact of the Ariba experience of Lever Faberge in Germany has started to be analysed, and initial indications are that Unilever is seeing cost reductions of between five and eight per cent. These cost reductions have been identified as follows:

- 1.5 per cent – simplified paper flow
- 1.1 per cent – more efficient accounts payable processes
- 1.5 per cent – trade terms related to electronic invoicing
- 2-3.5 per cent – volume negotiations savings via strategic sourcing

These reductions appeared to be in line with expectations but at the time of writing Unilever believed that it would require a critical mass of spending across broader spend categories before it could comment on the overall financial impact.

More broadly, in its 2001 annual report the group announced that it had already realised incremental global savings of 1.2bn through its global strategic sourcing initiatives. Operating margin for 2001 rose to 13.9 per cent compared to 12 per cent in 2000. For a summary of Unilever financial performance see figures 1-4.

**Future challenges**

There were a number of challenges to overcome as the Ariba system was implemented across Unilever Europe. Electronic invoicing faced problems in some markets because of the need to generate paper invoices in several countries, and there were also issues surrounding increased integration with the group’s legacy systems. There were also problems with the limited scope of desktop Internet access within some Unilever companies, which might hinder widespread adoption of online buying. But it was not considered that these would stop the ongoing and rapid rollout of the Ariba system for the spend categories that had been negotiated by the strategic purchasing group.

Indeed, the biggest questions facing Cooper-Jones in early 2002 were strategic rather than technical: “Some of the biggest questions for Unilever Europe in terms of the ongoing rollout are ‘where to next?’ and ‘how fast?’ Some of our challenges arise from the fact that for many years parts of the company have been operating as autonomous local companies with...
Lessons for managers

One of the most important lessons from the Unilever approach to strategic sourcing is the recognition that the various elements of spend analysis, sourcing and procurement must be linked to achieve enterprise-wide spend management.

Step 1 - Analysis: For successful spend management and leverage, there is a need to assess and evaluate firm-wide spending activities. A company needs to be capable of identifying strategic and non-strategic suppliers, get a better understanding of supplier performance and its own spend patterns, and ensure that spend from multiple business units is aggregated. Once this step is achieved, a company is in a strong position to identify and approach suppliers to negotiate contracts – the sourcing phase.

Figure 3
Group operating margin %

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<th>Year</th>
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<th>North America</th>
<th>Africa, Middle East and Turkey</th>
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<th>Latin America</th>
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Figure 4
Group operating profit by region %

<table>
<thead>
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<th>Year</th>
<th>Europe</th>
<th>North America</th>
<th>Africa, Middle East and Turkey</th>
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optimisation sometimes only at national level. The new organisational structure can operate very effectively on a divisional basis but operating across Europe requires a new level of focus and a very high level of co-operation across the business.

“At the same time, we now have some of our operating companies seeing the benefits of online buying through Ariba and wanting to move forward themselves to negotiate with their existing supplier base as they become frustrated with the pace of centralised negotiations. So do we allow our operating companies to go to their suppliers and say ‘give us everything you have got for our online catalogues’ or do we continue to be more prescriptive and focus on the strategic buying approach?”

Beyond organisational issues, change management was also emerging as an important consideration. “Change management issues in strategic sourcing have many implications,” says Cooper-Jones. “In travel, for example, strategic sourcing will take the environment it is told to evaluate, look at the supplier base and take the best deals. But we cannot look at strategic sourcing in an area such as travel in isolation from the context of its broader business environment. Business process optimisation is affected and a clear travel policy with clear rules and regulations needs to be in place before any kind of e-procurement and compliance is introduced. Individuals often feel threatened by the implications of a new system because the requirements of e-procurement constantly drive optimised workflow processes.

“Another area is individual empowerment. Previously, most employees passed their purchasing requests – from stationery to travel – to a purchasing or travel department for processing. But with e-procurement individuals are enabled to undertake these transactions directly. Some are attracted to this proposition and some are not. Many would claim that an executive’s time would be better spent on managerial responsibilities than purchasing his or her own requirements while others argue that empowering a workforce has a positive impact on corporate culture. We at Unilever tend to err towards that latter view but the jury is still out for many large corporations implementing e-procurement systems.”
Step 2 - Sourcing: To successfully manage spend, procurement efforts must be an enterprise-wide process that addresses all "quote"-based purchasing activities. By focussing and measuring all spend through its various businesses, a company can gain tremendous sourcing leverage with suppliers. Purchasing professionals can then bundle purchases, evaluate business constraints and assess the optimum economic value from suppliers when awarding contracts.

Step 3 - Procurement: To ensure that identified savings are realised, a company also needs to have a unifying procurement solution to help capture and reconcile all spend. To successfully manage all spend categories, end users need the capability to buy both basic and complex configurable products and services directly from contracted suppliers. This delivers cost savings by reducing maverick spending and increasing the efficiency of the entire procurement process, from requisition to payment: reducing transaction expenses, decreasing cycle times, and strengthening supplier relationships.

Finally, by ensuring compliance and capturing spend a company is in a strong position to effectively analyse future need and use this analysis to negotiate with suppliers (Step 2).

By implementing this process of enterprise-wide spend management, a company can create a virtuous circle of procurement activities as demonstrated in Figure 5.

Of course, the theory underpinning this approach to enterprise-wide spend management is not new. But the realisation of strategic sourcing has been hampered for many years by the lack of tools to effectively integrate the various elements of the spend management process.

As the Unilever case demonstrates, because of the difficulty of analysing expenditure (Step 1) across relatively autonomous regions, countries, companies and even departments, the group found it difficult to aggregate purchases. This lack of spend knowledge then impacted the sourcing element (Step 2) as it was difficult for purchasing professionals to negotiate optimum volume discounts. And even where purchasing professionals did negotiate contracts, the adherence to these contracts was variable at best.

Again, without adequate tools to monitor procurement and contract compliance (Step 3), maverick spending and other areas of off-contract purchasing were difficult to manage. In turn, the lack of these tools in the procurement function made spend analysis a complex task. The question facing purchasing professionals for many years has been how to develop tools, systems and processes to overcome this lack of integration.

The Internet, and strategic sourcing solutions such as Ariba, enable companies to address many of the historical challenges of enterprise spend management. In the case of Unilever, the Internet-based solution adopted by the group delivers an e-commerce infrastructure to electronically analyse and aggregate corporate purchasing from each employee desktop, and direct spending to preferred suppliers and B2B marketplaces.

The Ariba implementation will eventually enable every Unilever employee involved in buying items from office supplies to travel to select from a batch of previously agreed sources at volume-negotiated pricing. And longer term, e-enabled strategic sourcing will aim to meet a broader aim of identifying the lowest total cost solutions – not just the best price but also price related to areas such as customer service, innovation and...
creativity. For the first time, Unilever has been able to effectively link and monitor the three elements of strategic sourcing for non-production purchases.

Although the implementation of Unilever’s Ariba system is still at a relatively early phase, several key benefits have been identified by the group:

**Increase in contract compliance:** Unilever has witnessed increased use of preferred suppliers, and reduced off-contract spending. This has resulted in more goods ultimately purchased at lower prices.

**Leverage of purchasing power:** The Ariba solution has provided greater oversight of purchasing spend and has enabled detailed analysis of actual spend with each supplier and product category. Unilever believes that as spend is increasingly analysed and aggregated the group will use its increased purchasing power to negotiate increased volume discounts.

**Reduction in process costs:** Unilever has witnessed significantly reduced error rates and reduced order-processing time. Fax and phone usage has been reduced and the group has seen a reduction of on-site inventory. The system has also enabled procurement staff to focus on value-add activities.

Senior Unilever executives highlight that these areas are only the initial benefits of strategic sourcing and that the group expects to realise a broader array of advantages in the longer term.

While the jury is still out with regard to areas such as people empowerment and process optimisation, Internet-enabled strategic sourcing appears to be emerging as one of the success stories of the dot-com bubble.

Indeed, companies that turn their backs on this approach because of scepticism towards e-business initiatives may see their long-term competitiveness eroded by companies, such as Unilever, which are driving ahead with technology-enabled strategies.