

Raising the bar for Procurement at Beiersdorf

Beiersdorf AG, the German consumer products manufacturer, reported its strongest annual sales revenues since 2008 at the start of the year. Its portfolio of brands including Nivea, Tesa and Elastoplast are highly profitable in Europe and North America but less so in emerging markets.

To sustain its continued trajectory of growth, a core focus for the business over the next few years is expanding production into China and other new markets across Asia, Africa and Australia. In this article, CPO Angus McIntosh explains how Beiersdorf's Procurement division is gearing the business up for emerging market success.



Angus McIntosh

Getting more connected with the day to day

Procurement at Beiersdorf is a significant operation. There are over two hundred people working within the division, globally, managing relationships with around 7000 suppliers. Its innovative sourcing pathways help the business to achieve its goals. In December last year, the business appointed Angus McIntosh as CPO to lead the division.

According to Angus, 'Procurement at Beiersdorf has a very solid foundation but I recognised there was clearly a big opportunity for improvement. Beiersdorf is a commercially driven organisation that perhaps hadn't previously recognised the true value of its Procurement function. My objectives this year have been focused on making sure the function is more strategic, as well as more connected with the day to day challenges faced by our businesses.'

The foundations of Beiersdorf's procurement strategy are based on delivering across four key areas: growth, financial results, service and security. The approach that Angus has adopted to help the division deliver these objectives is to make Procurement become '...more assertive and more collaborative at the same time.' This, as Angus explained, will make the division '...actually stand for something within the business.'

First and foremost, as Angus noted, building the right foundations is important and has, so far, involved a degree of 'functional engineering.' A conceptual structure based around compliance and governance, tools and processes and talent was adopted to drive the function forward. This organising framework, Angus explained, is intended to be the Procurement division's '...consistent language





over time for the initiatives we want to run and how we report our progress.'

Once this was in place, Angus and his team set about engaging with the division's internal customers. This involved visiting the different regions and meeting the leaders in the business to understand their issues as well as going 'downstream' to visit the trade. 'With our managers, I spent a long time looking at Beiersdorf's and its competitors' products on the shelves and building a clear picture of how we were competing in the market place.'

This process of building connections and listening and learning, led to the development of an internal stakeholder management plan that '...provided a very clear list of business opportunities, relevant to the concerns of each of our business leaders. Fundamentally we need to make sure that decisions are made in the best interests of Beiersdorf, and not just in the interests of the Procurement function, by establishing a specific set of opportunities that address business needs, whether that is cost, speed-to-market or innovation.'

A broader way to think about supplier performance

An extension of the assertive/collaborative model, as Angus explained, is to drive the same philosophy externally to the company's suppliers. This is a major aspect of Beiersdorf's procurement strategy and one which Angus contends needs major development. To make sure that Beiersdorf gets good value for money and good service from its suppliers, Angus and his team identified the top suppliers in the business and engaged with them directly, to decide whether the business would either get more assertive or more collaborative in the relationship.

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Angus explained that the situation '...needed to be refreshed'. In recent years, Beiersdorf has become too dependent on some of its suppliers while some of its suppliers had become too dependent on Beiersdorf. The solution therefore is for '...Procurement to challenge some suppliers a little harder than we have in the past, while looking for ways to consolidate the relationship with others, by working more deeply with them.'

Angus contends that many of Beiersdorf's suppliers believe they have very strong bargaining powers due to the lack of choice, in some instances, within the market. That thinking is false, he says, and the task of his team is to 'disrupt their expectations'. In other cases, '...we have fantastic suppliers that are growing with our business and are highly competitive, investing for us and with us and we want to work more deeply with those suppliers.'

Basically, Beiersdorf needs to be clear about what is the right approach in the right situation. Angus explained that a big opportunity in this area is to make sure that once Beiersdorf is

convinced that suppliers are offering their keenest pricing, they are then evaluated on more than price alone. 'As I go around the business and talk to factories and supply chains, I'm frequently being asked to balance the suppliers' price with their operational performance when making decisions about how to allocate volume.'

Put simply, Beiersdorf is broadening the way it thinks about supplier performance by using a framework of supplier evaluation to address critical factors.

Localising and regionalising capacity

The procurement strategies outlined above, as Angus explained, are intended to facilitate Beiersdorf's capabilities within the high growth emerging economies, particularly in Asia, EMEA and LATAM, as well as securing competitiveness in Europe.

Although cost is a constant challenge across all regions, 'below the surface' the apparent issues at the local level are diverse and require bespoke solutions. This means, as Angus noted, that Beiersdorf needs to 'localise and regionalise its capacity.'

This is a major shift for the business. Building supply chains in growing regions while concurrently establishing production capacity means that Beiersdorf products are increasingly supplied from growth regions directly. New facilities are currently being established in Asia, Mexico and India.

In the past, Beiersdorf has tried to service growth in emerging markets through export volumes from Europe, but the Procurement division's priority is to gradually phase this strategy out completely.

To match this expansion in manufacturing, Angus explained, requires a significant step-change in growing Beiersdorf's supply of raw materials and packaging to match its production capacity. 'As capacity comes on stream, it is much better if we can supply that capacity with raw materials, packaging and services from within the region.'

In the past, Beiersdorf has tried to service growth in emerging markets through export volumes from Europe, but the Procurement division's priority is to gradually phase this strategy out completely. 'It's a very superficial form of localisation if all of your raw materials and packaging are imported from Europe.'



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The challenge, in Angus's view, is to do this successfully, 'without diluting our global leverage or fragmenting our category expertise.' By fragmenting purchasing into multiple areas, businesses can risk diluting their ability to drive value. 'As we regionalise our physical supply chains, we need to make sure that we don't fragment our category expertise or our commercial leverage.'

The other major obstacle in this regard, as Angus explained, is finding suppliers who are at the right stage of development. 'The supply base doesn't exist everywhere where we need it to, so it needs to be developed or invested in by our suppliers.'

Angus did note, however, that with globalisation and the increasing demands of other international customers, Beiersdorf's suppliers in emerging markets are developing technical skills very quickly and the overall approach to quality is improving. 'Our global suppliers are increasing their footprint, either through acquisition or direct investment. That helps us because they bring their standards into those markets.'

Anticipating the future

Safety, availability, cost and reputation are indicative of the risks all consumer product companies today are facing. Angus explained how the Procurement division is taking a lead in protecting Beiersdorf against such risks.

A central component of the approach is establishing forward looking category strategies whereby '...our sourcing managers and category managers are constantly looking at future trends, trying to anticipate how the landscape might evolve.'

From an availability perspective, the purpose of this approach to procurement is to ensure Beiersdorf doesn't become locked into sectors of the supply market that are in structural decline. Large suppliers can change their strategy and exit markets which are marginal for them, but critical for Beiersdorf and, as Angus noted, 'we can do little to prevent this so we have to remain flexible and agile.'

Furthermore, ingraining this culture within the division, Angus noted, also helps Beiersdorf avoid being too reliant on single sourcing, which again, inevitably creates availability risks.

Quality and safety, according to Angus, are the number one priorities. Getting these factors right isn't easy, but the solution is based around the continuous qualifying and monitoring of the standards of

suppliers. 'It is important to not take the integrity of your supply chain for granted.'

In terms of cost, Angus is adamant that Beiersdorf must remain vigilant of the fact that material prices could begin rapidly inflating again, just like they did between 2008 and 2011. Being too comfortable during this period of relatively stable commodity prices is a cultural attitude Angus is keen to avoid developing.

Generally, Angus explained, 'There are lots of different approaches to costs. We need to do more of everything; more hedging, more value engineering and better old fashioned price leverage and negotiation.'

Finally, with regards to reputation, Procurement has a vital role to play in auditing the ethical, environmental and labour standards of Beiersdorf's suppliers. 'Our main brand Nivea is all about care and that means we need to care, not just about our consumers, but about what happens upstream in the supply chain as well.'

'Reputation is hard won and easily damaged by a scandal or an issue.'

Developing a strong procurement talent pipeline

Angus explained that Beiersdorf believes 'very strongly' in developing a procurement talent pipeline. He noted that in joining the business, following a 23-year career with Mars, a key talent objective of his is to ultimately develop his successor from within.

Part of his agenda as CPO is to 'raise the bar' on the level of potential of candidates Beiersdorf seeks to attract when recruiting within Procurement. At the same time, he and his management team are 'investing in the development of the people that we have.'

In going to market for candidates, Angus argued that his division can now confidently say 'We mean business and we're going places.' He continued,

'We are ambitious about raising the game of what we are doing, raising our contribution and raising our professional standards. We also have a raised level of visibility, which is giving us the momentum to add more value, get involved in more issues and make a procurement contribution to more things.'

The skill shortage in technical disciplines like procurement is a worldwide issue. For Beiersdorf, like other FMCG manufacturers, finding candidates with 'potential' is more important now, than trying to identify people, in this instance, with specific category expertise.

'I want people who have the potential to do bigger and more senior jobs and move around and up in the organisation. That means they need to be mentally flexible, have high learning agility, good communication skills, good business acumen and commercial and analytical skills. That's more important to me than the individual category expertise.'

Angus noted that once these skill sets have been attracted into the business, Beiersdorf is raising the standard of its career management process, to help those people gain category knowledge and generally develop their careers within the business.

If you're interested in finding out more about opportunities at Beiersdorf, please visit www.beiersdorf.co.uk/careers.html