

# PROCUREMENT LEADERS

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# IN THIS ISSUE



**6 Cost-cutting on the agenda for Novartis**



**18 The dynamic world of buying for media**



**28 Extraordinary purchasing feats**

## PROCUREMENT LEADERS ONLINE

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- 5 **Editor's Letter**  
Born to procure
- 6 **Global Round-up**  
Procurement stories from around the world
- News Analysis**
- 9 US currency challenge
- 10 The fate of keiretsu
- 12 **CPO Views**  
Procurement chiefs share their career paths

## PROCUREMENT STRATEGY

- 14 **Strategy Column**
- 15 **Research: Benchmarking**  
How do you measure up?
- 16 **Research: Salary survey**  
Glass ceiling intact
- 18 **Industry Focus**  
Media & entertainment
- 22 **Cover Story**  
What is a successful career in procurement?
- 28 **Feature**  
Buyers who boldly go
- 31 **Q&A**  
Nokia provides South American insight
- 32 **Interview**  
Ethical sourcing values at Ben & Jerry's
- 34 **Into the black?**  
Protecting against oil price drop

## COMMUNITY & CONNECT

- 36 **Community Column**
- 37 **Events**  
Previewing a spectacular summer
- 38 **Q&A: Americas Congress**  
Three CPO speakers share their insights
- 40 **Talent**  
The skillsets that make the most successful leaders
- 43 **Case Study: Elizabeth Arden**  
Transparency yields results for beauty group
- 45 **Case Study: Santos**  
Award-winning supplier collaboration
- 48 **Thought Leaders**  
Giles Breault; Jolien de Jong; and Nada Sanders

## CATEGORY INTELLIGENCE

- 54 **Category Column**
- 55 **Category Analysis**  
Marketing; Telecoms; IT
- 60 **Commodity Watch**  
Trade Secrets; Commodities Round-up
- 65 **Recruitment & Services**  
Supplier Directory/Services
- 66 **Just In Time**  
What we learnt this issue

# Visibly better analytics



Beauty product manufacturer Elizabeth Arden is utilising new data analytics technology to enhance product line visibility and improve supply chain efficiency to achieve greater value in its manufacturing processes, writes **Richard Edwards**

IMPROVING PURCHASE order accuracy is something that all procurement and supply chain functions aspire to, but while it may just be a goal for many, one of the world's leading beauty product companies has implemented a change in its processes that has made this a reality.

Through the utilisation of enhanced data analytics, Elizabeth Arden – which sells its products in more than 120 countries – has enhanced visibility across its product lines and driven efficiencies throughout its supply chain.

The New York-based company relies on third-party contract manufacturers to carry out its transactional buying of raw materials and packaging based on the requirements set out by a procurement team led by William Babuschak, senior vice president of global planning, procurement and manufacturing.

And while it's a system – referred to by Babuschak as the directed turnkey method –

## KEY TAKEAWAYS

- US beauty product giant has enjoyed huge improvement in order accuracy following introduction of new technology.
- The Smart Cube solution is enabling the company to track variances in purchases to a greater extent than ever before.
- The group is looking to utilise data analytics for greater control over inventory.

that has worked well in the past, the disparities between the data systems used by various manufacturers has presented challenges in the past.

"In the year prior to implementing this programme, the purchase price variance file was more than 45,000 lines of transactions that were conducted by our third-party manufacturers on our behalf," says Babuschak.

"In terms of data management, and being

able to do some thorough analysis and uncover what some of the root causes of bad management were, was tricky. We just didn't have the analytical horsepower to go through the data in any organised way to come up with some corrective action to make sure we were accurate in setting up our standards year after year."

## Data systems

That has now changed, with the company able to drill down into areas that were previously out of reach. Babuschak says: "Mostly, what people do, and what we had done in the past, was get reports on a monthly basis, based on receipts. So, essentially, you saw that variance reporting after it had already occurred. You have no ability to look forward at a bad buy that could be about to happen because all the transactional data is housed outside your own environment." ➔

## COMMUNITY &amp; CONNECT

Now, thanks to the company's utilisation of a solution from The Smart Cube, Elizabeth Arden's procurement operation has the ability to improve order accuracy by tracking variances and identifying the underlying causes.

According to Babuschak and the company's manager of global sourcing, Jessica Walters, who was instrumental in setting up the programme, that order accuracy has been improved by more than 32%.

And while transactional accuracy is being tackled head-on, the company is also finding itself better able to manage large transactional volumes and differing sources of data.

"We have a network of suppliers, all using different enterprise resource planning environments and transacting on our behalf," Babuschak says. "At any one point in time we can have as many as seven systems transacting with our vendor base. We need to keep some measure of control to make sure that they're buying against our standard parameters."

**Greater visibility**

Having gained a valuable insight into current spend, Elizabeth Arden's procurement organisation has also been able to gain greater foresight.

"For the first time since implementing the directed turnkey model, we received consolidated analysis that provided visibility into \$110m of future purchases that were being made on our behalf," says Babuschak.

"Given the scale of this amount, it showed how this analysis could best be used to improve our company's efficiency and profitability."

The technology also provided the firm with a perfect platform to drive compliance and minimise inventory liability, an area that the company had seriously struggled with in the past.

"What was shocking when the data started coming through, for me, was the escalation of liability based on minimum order quantities," says Babuschak. "We would place an order for 10,000 parts of a finished good and the manufacturer might have 5,000 pieces on hand. They would need another 5,000 but would hit a component minimum order quantity of 25,000.

"They would then have to go and buy these extra pieces because that was the minimum order for that particular component. When you go through that across thousands of components, there's an escalation that occurs in terms of the inventory liability."

That improved inventory management is an

## STATS AND FACTS

**Name of company**

Elizabeth Arden

**Nature of business**

Elizabeth Arden Inc. is a cosmetics and fragrance company founded by Elizabeth Arden as Red Door salon on Fifth Avenue, New York City in 1910. Arden's company was sold to Eli Lilly and Company in 1971 for \$38m before being sold to Fabergé in 1987 for \$657m. The company was then sold to Unilever before being bought by FFI in 2003 for around \$225m.

**Sustainability and corporate social responsibility**

Elizabeth Arden supports a number of initiatives around the environment and social responsibility. Its social responsibility efforts focus on two specific areas: causes that seek to benefit women, including promoting self-confidence for those afflicted by cancer, as well as innovative programmes that expand educational opportunities for young people. In collaboration with its partners in manufacturing and distribution around the globe, the company has committed to ensuring environmental health and safety, while also supporting programmes that will help reduce its environmental footprint. Elizabeth Arden is also working with its suppliers to reduce, reuse and recycle materials used in production.

**Supply chain model**

The company uses third-party suppliers and contract manufacturers in the US and Europe to obtain most of its raw materials,

components and packaging products and to manufacture all of its finished products for its owned and licensed brands. It also uses third parties in the US to manufacture its fragrance, skin and cosmetic products.

**Manufacturing model**

A turnkey model is used by the company, with the majority of its contract manufacturers being located in the US and Europe. Under this model, contract manufacturers assume administrative responsibility for planning and the purchasing of raw materials and components, while the company itself directs strategic sourcing and pricing with important raw materials and component vendors.

**Performance improvement**

In June 2014, the company announced a Performance Improvement Plan, a broad restructuring and cost savings programme that is intended to reduce the size and cost of its overhead structure and exit low-return businesses, customers and brands to improve gross margins and profitability in the long term. The plan includes the exiting of certain unprofitable retail components and fragrance license agreements, changes in customer, distribution and supply chain relationships, the discontinuation of certain products, the elimination of a number of employee positions globally and the closing of its affiliate in Puerto Rico. The company anticipates annualised savings resulting from the plan of approximately \$27m to \$35m.

area that Elizabeth Arden will be looking to exploit as it continues to utilise the solution.

Improved predictive cost is another area where Babuschak and his team are hoping to benefit. Before the first compliance report was generated, up to 82% of the company's purchases resulted in some variance to the master data and expected parameters. The variance is now 50%.

These improvements are clearly part of an ongoing process, but they have enabled procurement to take a far more proactive approach than would have otherwise been possible.

"Essentially, through the process we've established, we do variance reporting and coding every month on the transactions that are about to occur based on the new purchase

orders that are placed," says Babuschak. "Every month, we're refreshing and cleansing our view on what our standards should be. Now, if a purchase doesn't match our master data, we are able to code things as a one-off occurrence, so if we're paying a higher price we know why we're paying it.

"We're essentially cataloguing just how good and accurate our standards are throughout the year. We're able to measure whether these price variances are a one-off or whether they're consistently happening. If they are happening consistently then that price variance pretty much becomes our new standard."

With that kind of data it's little wonder that Elizabeth Arden is looking to a future bright with possibilities. ■