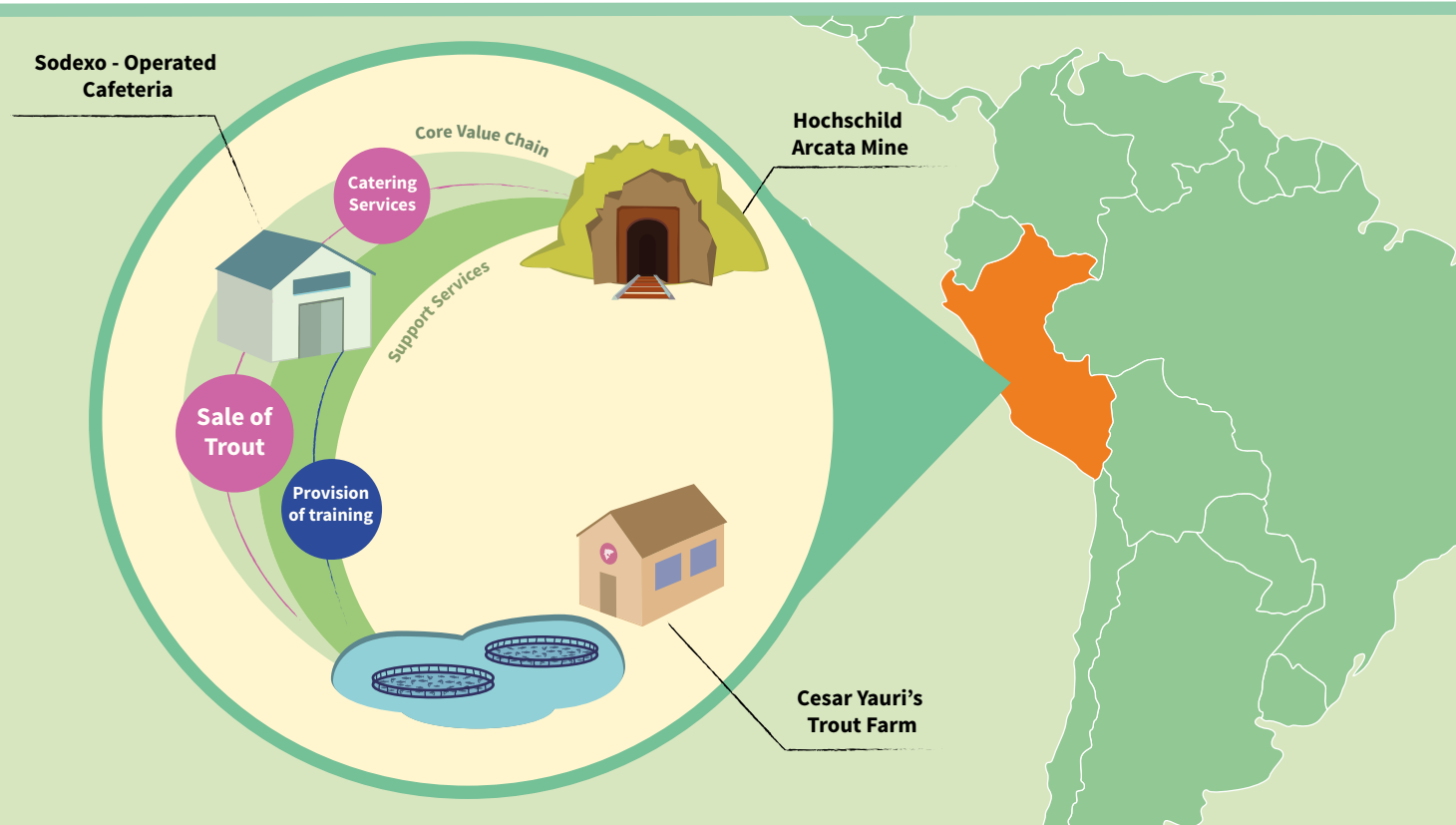




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Sodexo Local Community Supply Chain Inclusion Program

Impact Of Procurement Practices On An SME In Peru



This case study highlights the procurement strategy by Sodexo, a French food services and facilities management company, and the implementation of its local community supply chain inclusion program in collaboration with the Hochschild Arcata Mine in southern Peru.¹

Background

According to Sodexo, the company operates “in 80 countries, [...] serves 75 million consumers each day through its unique combination of On-site Services, Benefits and Rewards Services and Personal and Home Services. Through its more than 100 services, Sodexo provides clients an integrated offering: from food services, reception, safety, maintenance and cleaning, to facilities and equipment management; from Meal Pass, Gift Pass and Mobility Pass benefits for employees to in-home assistance and concierge services.”²

As a contractor for such a wide range of private and public clients, the company’s operations are highly visible,

¹ This paper was prepared for the International Labour Office by Carlo Maria Delù based on a case study by Ricarda McFalls, Victoria Kemanian, and Maria Vasquez (Latitude Consulting) (McFalls, R et al, 2016. *Sodexo Local Community Supply Chain Inclusion Program: Impact of Procurement Practices on an SME in Peru*. ILO, Geneva) as part of the ongoing research by the International Labour Office’s SME Unit on the impact of MNE’s procurement practices on developing countries’ SMEs. In addition to the case authors, we would like to thank Carolina Rouillon and the concerned companies for their collaboration in the data collection phase. Reference to names of firms, their practices, and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, practice, commercial product or process is not a sign of disapproval.

² Extracted from <http://in.benefits-rewards.sodexo.com/about-sodexo>

requiring sensitivity to client and consumer needs and perceptions, as well as intense public scrutiny and oversight due to the profile of its large public contracts.

Despite the international scale of Sodexo's operations only a small proportion of sourcing is done at the global level: the company purchases goods and services from over 10,000 suppliers globally. However, sometimes it can be difficult for local small and medium-sized enterprises (SMEs) to access its value chain. In the past years, though, Sodexo has made concerted efforts to make its supply chain more inclusive.

Strategy

In 2013, the company announced its Supply Chain Inclusion program, whose main aim is to increase the number of locally-owned SMEs from which Sodexo purchases goods and services. The goal is to source US\$ 1 billion in goods and services from 5,000 local SMEs by 2020. As of July 2015, the program has been deployed in 32 countries, and the number will increase to 42 by the end of 2016, with the aim of reaching all 80 countries when the program reaches full scale in 2020.

Through this sourcing strategy, the company wants to increase the “diversity” of its supply base, by giving preferential access to:

- Small and Medium Enterprises, including social and micro-enterprises.
- Companies owned by under-represented and/or protected groups such as minorities and women (where the target is a third of total participants in the program).
- Major Sodexo suppliers demonstrating a diverse workforce composition, actively embracing diversity and inclusion and promoting local supply chain inclusion.



To reach these goals, Sodexo combines different strategies, which involve both the French headquarters and its local subsidiaries. At the global level, Sodexo developed a new centralized system to measure the level of expenditure originating from SMEs, and is producing a list of best practices on local sourcing, which are then adapted and customized to the local subsidiary's needs.

Local Sodexo supply teams receive training and are incentivized to source from local SMEs, while at the same time the accreditation system for SMEs is made easier to navigate and understand. Sodexo subsidiaries, moreover, provide training to existing and potential SME suppliers so that they can increase their quality standards and become more competitive overall. Suppliers that complete these training sessions become certified, and can sell their products to all Sodexo sites and in other markets.

In some cases, Sodexo collaborates with intermediary organizations to better reach groups such as small agricultural entrepreneurs and women-owned businesses. For example, the company has partnered with an NGO to develop a mechanism to identify women-owned SMEs around the globe.

The components of the strategy were launched based on a three-year phase-in plan:

- During the first year, the company worked with its subsidiaries to define local program guidelines. This meant defining the system of incentives for local supply management teams, enhancing the tracking of

SME sourcing, as well as developing tools and providing guidance on how to streamline the integration of SMEs into the Sodexo supply chain.

- During the second year, Sodexo produced the training materials for SMEs suppliers, that were meant to improve the work done by the local teams in the first year. The company also developed standard operating procedures that make it easier for SMEs to join its value chain.
- From the third year until 2020, the focus is on geographical expansion, with the aim of reaching all the countries in which Sodexo operates.

The Sodexo Local Community Supply Chain Inclusion Program creates both reputational and commercial advantages for Sodexo, which are key drivers for its implementation by the company.

- From the reputational point of view, the program may place Sodexo in a better competitive position to become a contractor for companies that already support supplier inclusion. Moreover, in some jurisdictions, local supply chain inclusion is a requirement of government and local authorities.
- From a commercial point of view, SMEs can have a better knowledge of local needs, thus increasing the quality of the services provided. In addition, being positioned near the end-market can help cut transport costs, and working with a big number of smaller suppliers can help Sodexo diversify risk. Finally, stimulating growth and indirect job creation in local communities could expand the potential customer base.

Sodexo's work in Peru is a paradigmatic example of the company's sourcing strategy and was used as an inspiration for operations in other countries. Among almost 300 local SMEs and micro-entrepreneurs integrated into its supply chain in Peru, the Arcata community fish farming case was highlighted for this case study as representative of the full cycle of development investment required to help SMEs gain market access, and for the challenges related to reaching some of the world's most marginalized communities.


Supplier – Cesar Yauri's trout farm

Sodexo has been providing services to the mining industry since 1988 and, given the remote location of the mines, has engaged with local farmers since the beginning of operations. Among these mines, Hochschild Mining's Arcata unit is located in southern Peru, and became operational in 1964.

When the partnership between Sodexo and Hochschild was established, it was agreed in a very early stage that Sodexo would source local products for its food service operations at the mine. A mapping exercise was conducted, and local trout farmers were identified as prospective suppliers, provided that they reached the appropriate quality standards.

In 2011 the company identified a local micro-entrepreneur Cesar Yauri, who was interested in scaling up his activity to the commercial level. To be able to enter Sodexo's supply chain, the trout had to comply with Sodexo's quality standards, and a premium was going to be paid if the farmers were able to supply gutted and deboned fish.

Sodexo provided technical training to the micro-entrepreneur, which allowed the company to reach, over the course of three years, the required quality standards. After improving its skills in water management, trout breeding, feeding and care, water flow, handling, safety, hygiene and logistics; in 2014, the farmer officially entered Sodexo's supply chain. Apart from the technical training, Yauri also received support for the formalization of its business, thanks to which he was able to secure additional government funding. Sodexo, moreover, tries to keep its orders stable, and forecasts its needs in case of big variations in volumes. If the predictions are not correct, Sodexo supports the SME supplier in selling its product on local markets.



While no independent assessment was possible, Sodexo reports that the farmer's income had grown by 30% and Mr. Yauri's business expanded from sole proprietor to ten associates and six employees.

Good Practices

The following features of the Local Community Supply Chain Inclusion Program can be considered indicators of good practice:

- *Strong focus on local circumstances, including marginalized communities and women:* Although designed centrally, Sodexo's strategy is adapted to the local conditions, for instance by customizing training materials to the level of literacy of local suppliers. Training is not only delivered to the suppliers, but also to the whole local community to increase its prospects of economic upgrading.
- *Supplier management strategy and supplier administration:* This practice makes it easier for SMEs to enter Sodexo's value chain, by improving their access to portals and platforms, designing clear supplier selection processes and adapting insurance and certification requirements to the size of the supplier.
- *Training:* A strong focus on the program is on bringing the SME up to international standards, and any process standards that render the SME competitive with larger competitors. This, in the case of Peru, meant that Sodexo provided aquaculture, quality, and business management training to the local producer so that it could attain an international level standard.
- *Quality assurance:* Food safety is critical in the processing, handling and transport of fish. The supplier has had to put in place process upgrades in cleaning, deboning, packing, and transport of the product in order to comply with Sodexo quality standards. Sodexo, in turn, regularly inspects and tests samples of supplies.
- *Pricing:* The supplier was able to ask for higher prices, thus capturing the gains from the process and product upgrades attained through the program.
- *Purchase planning:* Sodexo and Hochschild work to have an advance schedule of their purchase needs, so that the supplier can adapt its production levels in time. In case of over-forecast, Sodexo declares that they would help facilitate the sale of excess stocks.

Conclusion

The case is representative of the progressive journey that companies undertake from Corporate Social Responsibility initiative to integrated business practice. Today, there are indicators that Sodexo's Local Community Supply Chain Inclusion Program is on its way to become an embedded business practice, as shown by the fact that it is managed directly by the Supply Chain function, which places it within company operations.

Additionally, Sodexo covers the 'trinity' package of good procurement practices, as it offers higher prices to the companies that complete the program, grants the stability of orders and promotes the use of standards, making it a strong example of how SMEs can benefit from lead firm procurement practices. The company also tries to have some degree of control on suppliers beyond the first tier, by giving preferential access to MNE suppliers that have local sourcing as part of their mission. More in-depth research on the scale of the program and its impact beyond the Arcata case in Peru will help to determine whether Sodexo will be able to expand this model to its entire value chain.

