



World Business Council for
Sustainable Development

Case Study

2007

Ledesma Local Supplier Development Program

Ledesma's Local Supplier Development Program aims to strengthen job-creation in and the economic development of the province of Jujuy, in Argentina, and particularly in the area where its employees live. In doing so, the company designed a program in which the growth of local suppliers could also provide benefits for the company. In this way, the sustainability of the program is not solely dependant on the commitment to local development.

The company decided to identify Jujuy-based small and medium enterprises (SMEs) that could, with management assistance and finance, replace other suppliers from outside Jujuy. These include companies from various industrial and non-industrial sectors. In doing so, Ledesma benefits from reduced transport costs and the possibility of having its supplier closer to its operations.



Ledesma in Jujuy, Argentina

Eleven companies took part in the first development cycle. Their combined sales to Ledesma increased by 80% from 2005 to 2006.

About Ledesma

Ledesma is an Argentine-owned agro-industrial company supplying high-quality products to Argentine families and industries, mainly in the sugar, paper and fruit industries. Ledesma, which will celebrate its 100th anniversary in 2008, leads its markets of choice and employs more than 5,600 people in Argentina. The company strives to align its economic growth with social progress and environmental protection. This alignment is part of the company's business style, and the essence of its social responsibility.

From the very beginning, Ledesma and Fundación Ingenio Ledesma (Ledesma Sugar Mill Foundation) have carried out several activities designed to promote development, education and the improvement of the quality of life of people, especially of the inhabitants of the province of Jujuy, where most of Ledesma's production activities are localized.

Ledesma actively takes part in various joint initiatives such as CEADS (the Argentine WBCSD chapter), FUJUDES, FUNDESNOA, and the United Nations Global Compact.

Ledesma believes that its commitment to social responsibility will be increasingly appreciated by its clients, consumers, suppliers, employees, shareholders, and by the communities where it operates.

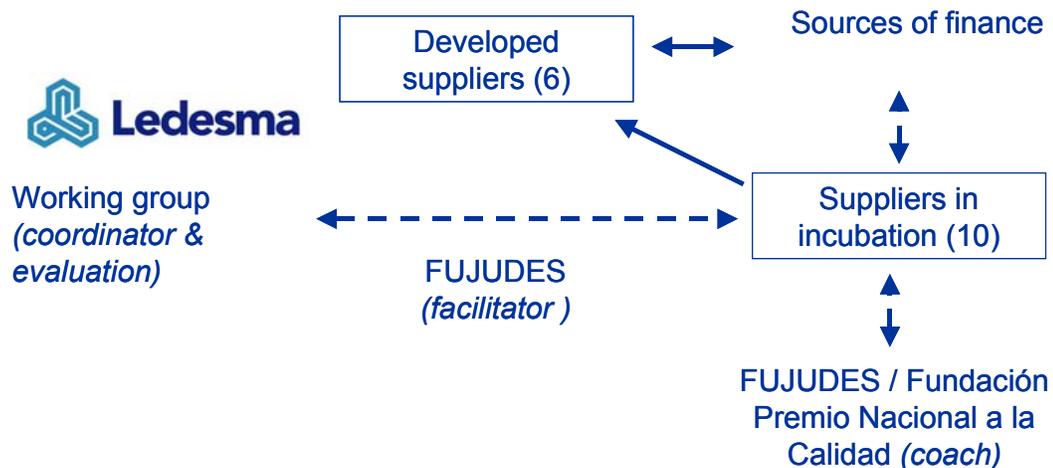
The Program

Ledesma started the Local Supplier Development Program after two years of work on a small- and medium-sized enterprise training program that began to show its limitations. Recognizing the situation, the company took on an annual study of the perceptions, expectations and priorities of what a supplier development program would entail, and set their focus for the new program primarily on increasing local supplier sales to Ledesma.

Players

The Ledesma team consists of an Operational Team made up of the heads of supply, human resources and corporate social responsibility and Sponsors consisting of logistics managers and the external affairs manager.

The Operational Team is responsible for the design, implementation and monitoring of the project, and for keeping the Sponsors informed of all progress made. The Sponsors make any suggestions they consider appropriate with a view to more effective achievement of the specific objectives.



The Jujuy Foundation for Sustainable Development (FUJUDES) acts as facilitator. FUJUDES's main objective is to study, design and implement programs intended to generate greater development in the province of Jujuy and the Argentine Northwest

At the request of the Operational Team, FUJUDES:

- seeks adequate sources of financing to suppliers;
- assists in the preparation of documentation aimed at securing financing;
- supports the work being done to improve supplier management;
- conducts supplier cost analyses and other research activities in regard to suppliers;
- organizes meetings or events with suppliers;
- carries out other work considered useful by the Operational Team for more effective achievement of the specific objectives.

Consultants from the National Quality Award Foundation (FPNC) and FUJUDES are acting as tutors or coaches for the CEOs of the SMEs.

Companies that join the "incubation" process receive 12 months of individual tutorials; their purpose is to make suppliers aware of the benefits to be derived from pursuing a

management excellence model (the FPNC model for SMEs) and support them in its implementation.

FUJUDES has already built into an FPNC regional dissemination center so that it can take on an increasing role in the tutorials.

Specific objectives

Objective	Indicator
Foster the creation of jobs associated with growth of the supplier.	(i) Number of new jobs
Increase the volume of business between Ledesma and selected suppliers.	(ii) Increase in volume of business (\$)
Improve the quality of management of the participating companies.	(iii) Improved score in FPNC self-assessment (iv) Complaints (number per period)

Stages of the development cycle

The program is designed to be ongoing, with a maximum of ten companies undergoing development at the same time. The different stages are as follows:

1. Selection

The supplier is pre-selected by the heads of supply according to specific criteria. In the event that suppliers have been pre-selected by other areas, the heads of supply must approve them.

The names of the selected suppliers are communicated to all of the user areas, together with the reasons for their selection.



Criteria for selection of participants

A. First phase

A1. Necessary conditions

- i) Any company that is already a supplier to Ledesma.
- ii) All the suppliers must be headquartered in Jujuy, and at least 60% of the total must be from the direct impact area (specific area close to Ledesma's complex).
- iii) Any supplier whose development would result in replacement of suppliers from other provinces.

A2. Qualitative criteria

For each company, the following will be evaluated on a scale from A (highest rating) to C (lowest rating):

- i) Value to Ledesma of having a local supplier for the specific product or service in question.
- ii) Relative ease of increasing the volume of business with Ledesma (according to the complexity of the project).
- iii) Commitment to growth on the part of the owner(s).
- iv) Current quality of service.



A3. Quantitative criteria

- i) Potential increase in annual volume of business (estimated in \$).
- ii) Potential increase in volume of business/investment required.
- iii) Increase in the number of jobs (estimated in terms of full-time, permanent positions).
- iv) Potential increase in the number of jobs/investment required.

B. Second phase

B1. Institutional non-objection

The general administrator and institutional affairs manager approve the institutional non-objection of the selected suppliers.

B2. Prior interview

The pre-selected suppliers will be invited to attend an interview with the Operational Team to determine their level of motivation for participating in the project and confirm the commitment to growth on the part of the owners. At the same time, they will be provided with a document setting forth the program's objectives and components.

2. Incubation

At this stage efforts are made to conclude a larger supply agreement. The supplier has access to tutorials that are designed to improve management quality.

The tutor's first activity is to conduct a self-assessment using the FPNC's management model for SMEs, which gives rise to the "Improvement Plan". The self-assessment is repeated 12 months later to measure the improvement in the supplier's management.

FUJUDES will supplement the "Initial Situation Diagnosis" with any elements that the Operational Team considers appropriate.

The Operational Team and FUJUDES will hold a meeting with the supplier to conduct an initial "Exchange of Expectations", to include the definition of the "Possible Areas for Development" (at this time they will seek to align the interests of Ledesma and the supplier).

3. Developed suppliers

A supplier is considered "developed" once it has a larger supply agreement (this may be a medium-term contract to supply a good or service, an undertaking to quote for specific items of work, etc.).

Ledesma awards the supplier with a certificate; the supplier then joins the "developed suppliers" subgroup and a new supplier is selected to take its place in the "suppliers in incubation" subgroup.



Héctor Ortiz and two of his sons, owners of Taller Coco



Development time

The time taken for a supplier to go from stage 1 to stage 3 will depend on the complexity of the process leading to the "party agreement"; however, the average time should lie between 12 and 18 months. Once 18 months have elapsed, the Operational Team will make spot checks on the supplier's situation.

Removal of a supplier

The Operational Team may, during any of the stages and with due explanation, request the removal of a supplier from the program. The Sponsors will evaluate any such case.

Monitoring

The Operational Team monitors the process of securing the agreement.

Financing

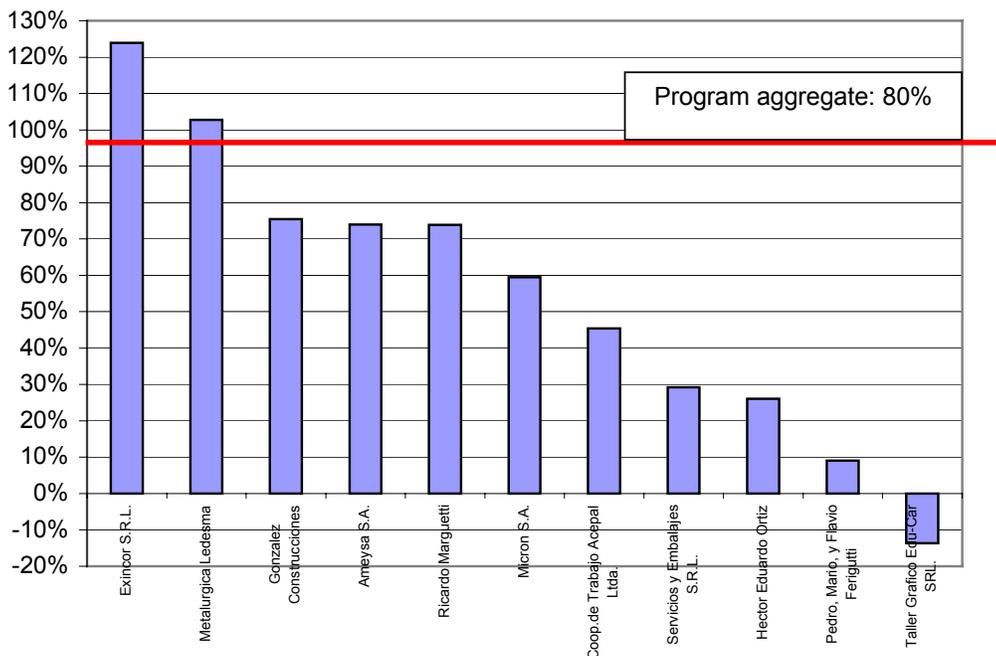
The Operational Team and FUJUDES seek to secure sources of financing for the suppliers.

Results

So far, the Local Supplier Development Program has contributed to a more sustainable environment close to the Ledesma's operations in Jujuy. Combined sales by selected supplier companies to Ledesma went up some 80% between 2005 and 2006 – from US\$ 5,212,502 to US\$ 9,378,675 – as a result of the program.

Direct benefits for Ledesma in this stage have been mainly associated with having local suppliers close to operations, including getting machinery repaired more quickly, solving problems with fabric quality, etc. Since results are closely linked in many cases to deep reforms taking place at the supplier's facilities, and to increased participation of suppliers in the incubation process, Ledesma expects to consolidate the program into its usual processes.

Variation in Sales of Selected Suppliers to Ledesma 2006-2005





Learning and adaptation

The Local Supplier Development Program has supplied the following lessons.

Recognize the importance of company-specific tutors rather than group training.

Ledesma's Supplier Development Program started with group qualifications, a system that works very well inside a company. However, in the case of SME owners, Ledesma's experience did not render good results. The owners of the SMEs need advising and coaching to manage the growth of their organizations and to improve the quality of present services. In the successive evaluations that Ledesma has made, coaching by professionals with ample experience in company consultancy has been of great value. Consultancy results include: designing a cost structure, formulating the company's mission, identifying and normalizing procedures, etc. However, these are individual tasks and must be done on a specific company basis for two reasons. First, the owner of the SME is involved not only in the planning of the company but also in operational management and cannot leave the workplace for four hours at a time. This is of ever-greater importance as the distance between Ledesma and its supplier increases. Second, the realities of each SME are very different.

Promote the active participation of procurement units. Although it is necessary to have other actors who contribute to the final mission, procurement units must own and lead the project.

Use external facilitators. Ledesma has found that external facilitators open a space of mediation between the interests of the supplier and those of Ledesma, allowing for an effective mix between short-term needs and medium- and long-term objectives.

Provide financing for growth. While Ledesma can finance the suppliers' development in the beginning, when operational volume increases, the use of a specialized financial institution is indispensable. Nevertheless, Ledesma recognizes that, regrettably, few sources of financing for fixed assets or other long-term finance mechanisms for the SME sector exist in Argentina.

Systematize the process of developing local suppliers. Once the program has been proven and fulfills its objectives, it must become standard operational procedure within Ledesma (or any large company conducting a similar project).

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About the WBCSD

The World Business Council for Sustainable Development (WBCSD) brings together some 190 international companies in a shared commitment to sustainable development through economic growth, ecological balance and social progress. Our members are drawn from more than 35 countries and 20 major industrial sectors. We also benefit from a global network of about 60 national and regional business councils and partner organizations.

Our **mission** is to provide business leadership as a catalyst for change toward sustainable development, and to support the business license to operate, innovate and grow in a world increasingly shaped by sustainable development issues.

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