

## **Interview with Charles Duchemin - CEO, Sodexo HC**

I have been CEO of Sodexo HC since 1994. In the early days our primary objective was to get things started – to get customers to sign up for our food and cleaning services. Sodexo HC was a pioneer in the field and at the time we had virtually no competitors that were as well structured as we were. The market was highly fragmented, with several small suppliers for each hospital. This was a good thing for us, but it required us to educate the clients and explain to them how outsourcing food and cleaning services could make life easier for them.

Competition in the industry has significantly intensified since then. In 2000 some of our competitors (like Compass) embarked on a series of acquisitions. They have been gearing up and are becoming more structured. We have started to experience competition from other industries like cleaning service firms that have tried to invade our territory. Their service quality is as good as ours but they may operate at lower cost. Despite these challenges we have done extremely well: between 1995 and 2000 our net income increased by 40%. We can be justly proud of these results. Still, I am concerned that to remain the benchmark in the industry we need to push harder, find ways to be more coherent and – most of all – more ambitious.

Achieving coherence in our service offering is absolutely necessary, not just externally but also internally. A critical challenge in this respect is that we need to think and act more as a team. This is not easy because our regional directors are scattered all over France while the head office managers are here in Paris. It is important that we agree as a group on where we want to go. For example, I feel there is a risk of declining market share, but not everybody seems to share that opinion.

The main goal for our business is to keep growing. Cash flow has become a priority in the Sodexo group and increasing our revenues is the primary way to improve our cash flow performance. A quick win on the cash flow side could be achieved by installing direct payment systems.<sup>5</sup> If employees pay for their meals with a badge, for example, we receive that money almost instantly. In terms of revenues, it's not easy to generate 10% revenue growth year after year. My feeling is that for this year, whatever we do, our overall growth rate for the private and public sector combined will halt at 6-7%, which I would argue is still quite a good result. I know we will not make the 10% target in the private hospital sector because several of our clients in that sector are closing down. We should try and compensate for this with a multi-service offer that increases our sales volume per client. In the public sector I expect our growth rate to exceed 10% this year because the customized offer we put together has been well accepted and we have little, if any, competition in that market.

Our so-called *Apprim-Services*,<sup>6</sup> a service offering that involves food purchasing but no production, is highly appreciated by our clients in the public sector because Sodexo assumes responsibility for food safety and it reduces their workload. Clients in the private sector,

<sup>5</sup> *Direct payment systems* consist of making the patient, visitor or employee pay directly for the food. This reduces complexity and increases cash flow because the hospital structure no longer acts as an intermediary which makes the payment to the service provider at the end of the month.

<sup>6</sup> *Apprim-Services* is a service offering built specifically for the public hospital sector. It involves ordering, purchasing and transporting all required food ingredients to the client's facilities. Sodexo is not involved in processing the ingredients or serving the food to the end consumer.

however, have different needs. They want to gain a competitive advantage from outsourcing as well as the having a guarantee of excellent hygiene standards. They are also starting to professionalize their purchasing activities. In fact, they buy our capability to solve problems and act quickly. Clearly the needs of both client segments go beyond simply reducing the risks related to food safety and hygiene.

Patients want meals that are of decent quality, standardized and safe. Even if it seems counter-intuitive, they are not really looking for a wide selection of meals: as long as we systematically provide food that is simple and tastes good they are satisfied. In contrast, hospital employees, beyond the desire to eat freshly-made food, also seek some solace from the grind of their daily routines.

Changes in the competitive environment have forced us to rethink our value proposition. In the past we did well thanks to our ‘*sans souci*’<sup>7</sup> strategy – our sales pitch was always the same: “You won’t have to worry about a whole range of things because we’ll take care of them.” Today this is no longer sufficient. We have to develop a service offering that clients perceive as adding value to their delivery of efficient and effective health care. If we continue to propose a *sans souci* type of offer we will grow steadily, whereas if we sell multi-service we could grow with a bang! We should go for it and change our culture, not because it is a nice thing to do but because our market leadership position is at stake. The business environment is undergoing radical change and we cannot afford to play the spectator.

Fortunately, to deliver the multi-service offering we don’t have to start from scratch. Today over 40% of our contracts include more than just food service, so *de facto* multi-service is already happening. Obviously, for some of the new service offerings we need to make major decisions. For example, to offer a sterilization service for medical instruments, which is a delicate and risky business, we need to invest in technology and build bullet-proof treatment processes. But the greater the risk involved in the job, the higher the profit margin. The hospital reception<sup>8</sup> service is also an interesting offering, but only if we are able to act as a help desk, a hub through which all information flows. Maintenance<sup>9</sup> is another service offering with great potential. We should collaborate with Altys<sup>10</sup> to deliver this service because they are exceptionally good on the technical side, although they have little – if any – knowledge of the health care business. Some of these offerings already exist, but we need to fine tune them to make them easy to replicate for all of our clients – there is no point in reinventing the wheel.

While we should definitely look at multi-service as the primary way to grow our revenues, we should not stop developing and improving our food service offering, which still represents our key competency. The fact that average patient stay<sup>11</sup> has decreased does not mean that people do not consume. We have to find ways to make better use of the time the patient spends in hospital, even if it has decreased. For example, when patients arrive at the hospital they have

7 *Sans souci* = No worries.

8 The *Hospital Reception Service* includes welcoming, informing, checking in, checking out, and serving as switchboard for visitors and patients upon arrival.

9 The *Building Maintenance Service Offering* includes activities related to maintaining the building equipment such as air conditioning, central heating and electrical systems.

10 *Altys* has been recently acquired by Sodexo Alliance. It specializes in building maintenance services (e.g. air conditioning).

11 Average patient stay indicates the average time (usually in days) patients stay in the hospital or clinic.

often been fasting, so after their visit, surgery or clinical testing they tend to be hungry. The question is, ‘Where are we when this happens?’ Overall, we are insufficiently exploiting the enormous potential represented by our client base. The real challenge is to shift from our current food service culture, which has traditionally focused on identifying ways to cut costs, to a marketing and sales culture where the focus is on finding ways to add value and increase price.

The quality of new site start-ups is very important. We need to take the time to reassure our clients and their employees about the choices to be made in these initial stages, such as choosing the right team on site, the necessary equipment, the type of IT infrastructure, the marketing material, the menus and the suppliers. Then we also have to show that we are putting the necessary resources in place for these choices to be adequately followed up. We must take this seriously since one of our strengths is our ability to beat competitors through superior knowledge of the health care business. The start-up activity is one way to gain these insights.

None of this can be done without a strong service attitude. This represents a major cultural challenge because we tend to be very focused on operations and could definitely improve our customer orientation - we need to learn to smile. We should also specialise. Teams in charge of developing public clients should focus on that segment and forget about private clients. Similarly, the needs of short-stay patients are not the same as those of long-stay patients, so a different set of people skills are required.

Another major issue is to reinforce Sodexo’s values, such as team spirit. I’ve been with this company for nearly 20 years now and I can tell you that when life gets tough, the only thing that will keep a team together is knowing each member can count on their peers. True, we need to evolve and change, but the starting point for thinking about this process should still be our values. In France we like to be seen as people who embrace radical change – *on fait la Révolution*<sup>12</sup> – but most of the time, behind the revolutionary façade, we know that nothing will actually change; people will still keep doing what they do, in the way they are used to doing it. We need to counteract this cultural tendency by sticking to our values and using them as the focal point to allow us to outsmart our competitors!

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<sup>12</sup> *On fait la Révolution* = refers to the French revolutionary tradition