

Interview with Yves Champion - Marketing Director, Sodexo HC

When I joined Sodexo HC last year, the business was doing well, with revenues steadily increasing. However, two major threats have emerged since then. First, several of our competitors are gearing up. Although Avenance, Compass, Sogeres, Aramark and the like are still not at the point of taking market share away from us, they might do so in the not-too-distant future. Second, we are already servicing one quarter of the total market today. That would be less of a problem if the total pie were to become bigger over time, but there are strong indications that demand is moving in the opposite direction. Smaller clinics are merging and consolidating so the number of clients we will be able to serve in the future is decreasing. These trends translate into the goal of tripling or even quadrupling revenue-per-client. Clearly we cannot achieve this goal with catering and cleaning alone; we have to offer something new.

The overall objective is clear. The number of hospital beds in France will be reduced by 100,000 in the next four years. We need to compensate for this volume reduction through sales of new service offers. Fortunately, Sodexo is a war machine built to generate growth but it's hard to grow in multi-service because the market is so conservative. I suspect we will have a hard time achieving our 10% growth target in the next budget cycle, but I am sure that we will double our revenues in five years' time. The current trend of hospitals merging will have a negative effect on sales: the large accounts will have more bargaining power, while clients who remain totally loyal to us will be a minority. So the phenomenon is doubly negative – it will increase the entry requirement for us and at the same time lower the exit barrier for the customer – an executive's nightmare! Our efforts will be geared towards raising the exit barrier through the types of services we offer.

Traditionally our client focus has been on the CEOs of private hospitals. But we also serve other clients such as patients, visitors and hospital employees. CEOs of private hospitals are primarily interested in our service offering as it relates to patients; from a service perspective it is important for patients to be well informed, respected and well cared for. A couple of months ago we brought together a panel of hospital CEOs and they told us quite bluntly that our offer no longer corresponded to the reality of today's hospitals. Sodexo's patient management is based on the assumption that patients will stay at the clinic for at least two days, whereas nowadays over 25% of patients are outpatients, which means that they do not exist for us, our systems don't see them. CEOs of public hospitals are above all interested in services that simplify their daily activities and are low cost.

Visitors are becoming increasingly important because of the growing size of private clinics. Not only have smaller clinics started to merge, there is also private investment in building new private clinics that are comparable with public hospitals in terms of the range and level of medical treatment offered. In these health care structures that house 300 to 400 patients, the number of visitors is huge. They spend an average of three hours at the clinic, so why not offer them something? Service elements that are particularly important to visitors include information, clear directions, courtesy at reception, and round-the-clock food availability.

Despite the fact that hospital employees spend a significant part of their time on site over many years, they have been somewhat neglected. I would argue that they are an important group to satisfy, especially since they are becoming a scarce resource. Employees require a

service that makes daily life more enjoyable and is available at any time in a clean, pleasant and comfortable working environment. We need to develop offers that differentiate us from our competitors and that improve cash flow, such as vending machines¹⁶ and television offers.¹⁷ These need to make a difference for our clients, who must appreciate the value-added that our service provides. We have already adapted our food cycles to the length of patient stay – for example, the needs of a patient staying for two days are relatively basic compared with those of a long-stay patient – so we went from a one-menu-fits-all to a diversified offer based on the length of stay.

The objective of multi-service is not to do everything, but to do what adds – or might add – value in the eyes of the hospital CEO. We don't want to manage the entire hospital; that's not our job. Rather, we should concentrate our efforts on where our service offering impacts the reputation of the hospital. For example, the hospital reception¹⁸ is an offering we are currently thinking about. It is important from a tactical point of view because it gives us 'live' access to a lot of information. In addition, we can do the maintenance in partnership with Altys.¹⁹ We have to make our cleaning offering²⁰ more competitive to increase our profits and then use the cleaning service as a step-up to sterilization²¹ and waste management.²² The new, complex EU safety regulations provide an opportunity for us to propose services that are typically not outsourced today but that would yield excellent margins – I'm thinking of sterilization services with a 40% margin, for instance. Whether this type of activity would work will depend on how good we are in anticipating the scale of the new regulations. Of course, once we have developed the right offers we should make sure that the standards we set for them are implemented accordingly.

The big challenge for us is to familiarize ourselves with the new offers and develop the commercial side. It's a crusade; we have to spread the gospel, convince our peers, colleagues and employees. We also have to encourage our site managers to step outside of their purely operational mindset and transform them into sales people.

While national clients are stagnating, the number of large regional clients is growing so we need to reinforce our market share in the regional key accounts. These larger accounts usually have purchasing specialists who are paid to make life difficult for us. This is an opportunity in the sense that it forces us to innovate. We need to go much further in our capacity to follow the evolution of these clients and adapt our service offering accordingly. It would also help us if we designed a standard key account management approach that could be used in those countries where the industry is more mature. For example, we should know what the client entry point is, at what level we want our point of contact, and what level of expertise is required at the different stages of the relationship. The strategic issue embedded in the

16 The *Vending Machine Service Offering* includes snacks, sandwiches, hot and cold drinks.

17 The *Television Service Offering* provides patients with access to a TV. Depending on the hospital, patients can access national channels and/or pay-TV channels.

18 The *Reception Service Offering* consists of taking care of patient-related administration from arrival to discharge.

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

20 The *Cleaning Service Offering* covers the cleaning of all hospital facilities except for sterile rooms.

21 The *Sterilization Service Offering* covers the sterilization of all medical instruments and equipment.

22 The *Waste Management Service Offering* covers the management of all waste (including organic and toxic) resulting from health care activities.

growing importance of those key accounts is our ability to anticipate the consolidation of hospitals. By partnering with the different clinics that are likely to merge we automatically position ourselves as a preferred supplier of services to the merged entity.

The more economic constraints and food safety risks become important, the higher the barriers to entry, and the better for us. In this respect, we should thank the European Union: they are incredibly good at complicating safety regulations, and the more complicated things get, the better for us. We can make our offers increasingly sophisticated, specific and competitive and sell them at a price premium. To achieve this, our dieticians and cooks must make changes as well because they must conform to a different set of guidelines in developing menus.

We also have to generate growth in the public sector and find managers that are capable of pushing it forward. There will be a concentration similar to that we have seen in the UK public sector. When the entire system is undergoing reform there are always opportunities to gain market share. We have built a group of managers who focus solely on the public sector, which has proven to be a winning strategy and a profitable one too, since we tripled our revenues in just two years. The differentiating factor is our capability to share people's language and culture, and to provide support in the long term. We have made a nice entry into the public sector but I'm not sure the trend will be sustained in the long run. The question is: can we multiply our results by a factor of two to four in the next three years? To do so, we need to learn to sell additional services in the public sector.

One of our greatest differentiating factors is the attention that we give our clients – the clients themselves tell us that. We now have to regionalize our employment practices and raise the bar even higher. It is by better understanding the business of our clients that we will be able to better position ourselves. Team spirit is also very important because it allows people to perform their jobs more effectively, and I think there is still significant room for improvement in this respect.

Lastly, we can definitely improve on the reporting front. A good information system would help us do our jobs better, and our finance people should be provided with better tools to analyze our financial performance. On the marketing side we need a database that enables us to know what's going on at each of our clients. We are lacking a key process – the evaluation of our offers – so we should put in place relevant performance indicators. We currently lack information about the actual quality of the service delivered, which is usually an indicator of potential problems with a client.