

June 2022

The Inclusive Sourcing Methodology - *Appendix*

In addition to the examples integrated in the guide, the following document will provide you with further illustrations and tools.



STEP 1.2

Set your overall ambition and main objectives

Sustainability Commitments, L'Oréal Solidarity Sourcing Toolkit

	VISION	PRE-REQUISITES	IDENTIFY BENEFICIARIES	EVALUATE, REPORT & MANAGE	CASCADING TIPS	WHO DOES WHAT	MANAGE PROJECT & FOLLOW-UP	GET INSPIRATION AND SCALE
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OUR SUSTAINABILITY COMMITMENTS FOR 2030




In June 2020, we launched the [L'Oréal For The Future program](#), our sustainability commitments for 2030. Thanks to this new program, we can make it possible to go further.

Sharing its growth has long been a priority for L'Oréal. We are working to **build a more sustainable and inclusive world** through multiple programs.

One of the pillars in achieving our ambition is the **empowerment of our business ecosystem**, including our consumers, our suppliers and the communities we work with.

More specifically, we have committed by 2030 :

- to help an additional **100,000 people(*)** in social and economically vulnerable situation gain **access to employment**.
- 100% of our strategic suppliers' employees will be paid at least a **living wage(**)** covering their basic needs and those of their dependents, calculated in line with the best practices.

(*) including additional 80,000 beneficiaries from the Solidarity Sourcing program, compared to its 81,138 beneficiaries baseline achieved in 2020. Solidarity Sourcing accounts for 80% of the global +100,000 social and societal L'Oréal major commitment, completed with other Programs (The L'Oréal Foundation Beauty for a Better Life vocational training Program + the internal HR Diversity & Inclusion on handicap)

(**) Solidarity Sourcing projects must be exemplary

VISION



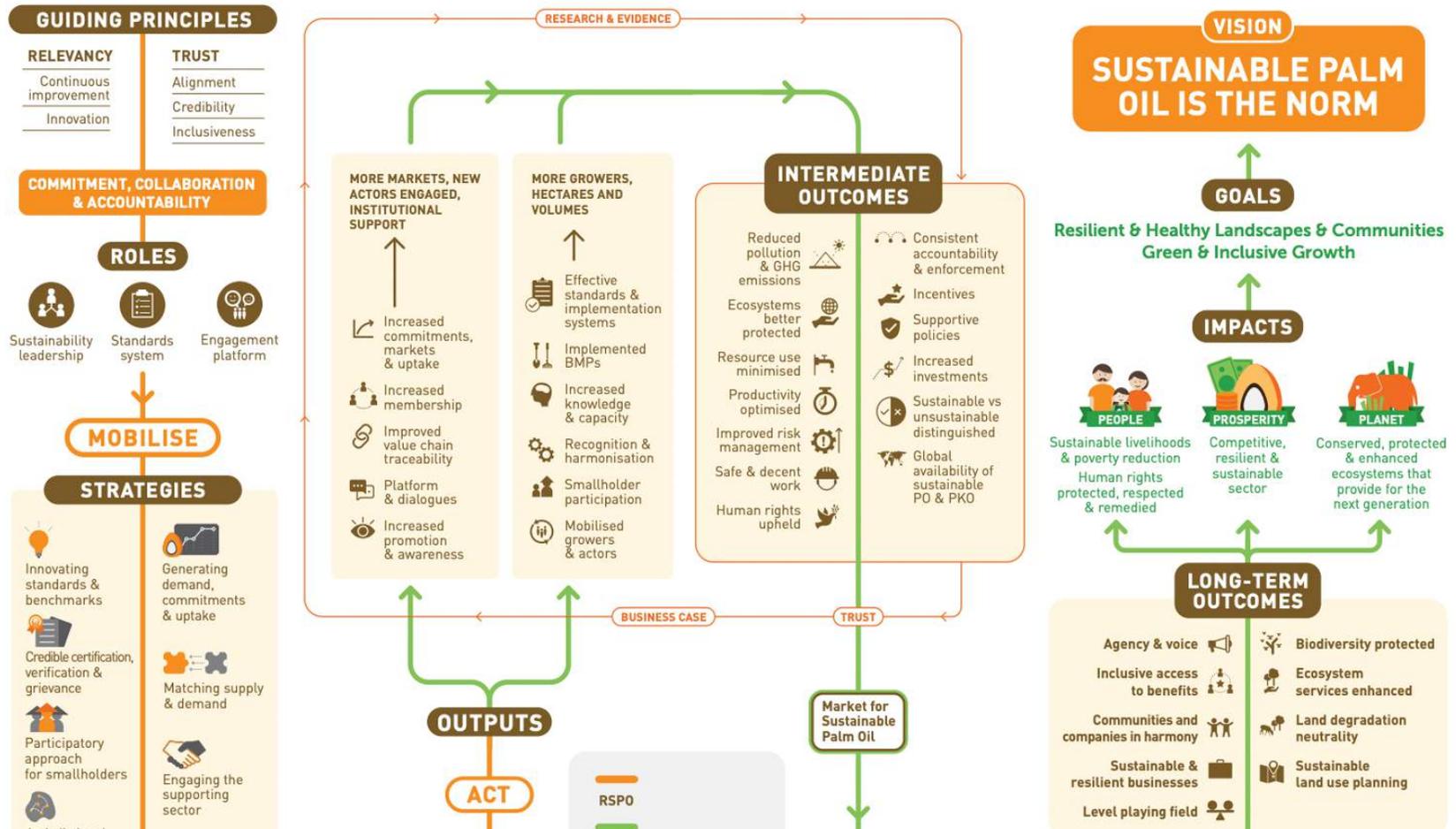
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STEP 1.2

Set your overall ambition and main objectives

Theory of Change, RSPO Roadmap for Sustainable Palm Oil



STEP 2.1

Set your Inclusive Sourcing impact priorities

The Beneficiary communities, L'Oréal Solidarity Sourcing Toolkit

VISION
PRE-REQUISITES
IDENTIFY BENEFICIARIES
EVALUATE, REPORT & MANAGE
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THE BENEFICIARY COMMUNITIES

Of course people don't live a single-issue life, there are many intersections among below communities, and the cumulation of them often increases vulnerability. It is not exhaustive : please make sure you address the social and societal stakes that are more relevant in your location and specific activity.

IDENTIFY BENEFICIARIES



[Fair Sourcing](#)



[Women's empowerment](#)



[People with disabilities](#)



[Senior Workers](#)



[Long-term unemployed](#)



[Refugee & asylum seekers](#)



[Minorities](#)



[Veterans](#)



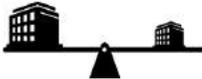
[Other socially and economically vulnerable people](#)



[Local employment in vulnerable zones](#)



[Work integration social enterprise](#)



[Small businesses](#)



[Diverse* Suppliers «Owned Certified» Businesses](#)
(*Women, Minority, LGBTQIA+, veteran, disabled)



[Natural disaster](#)



[Specific local know-how](#)

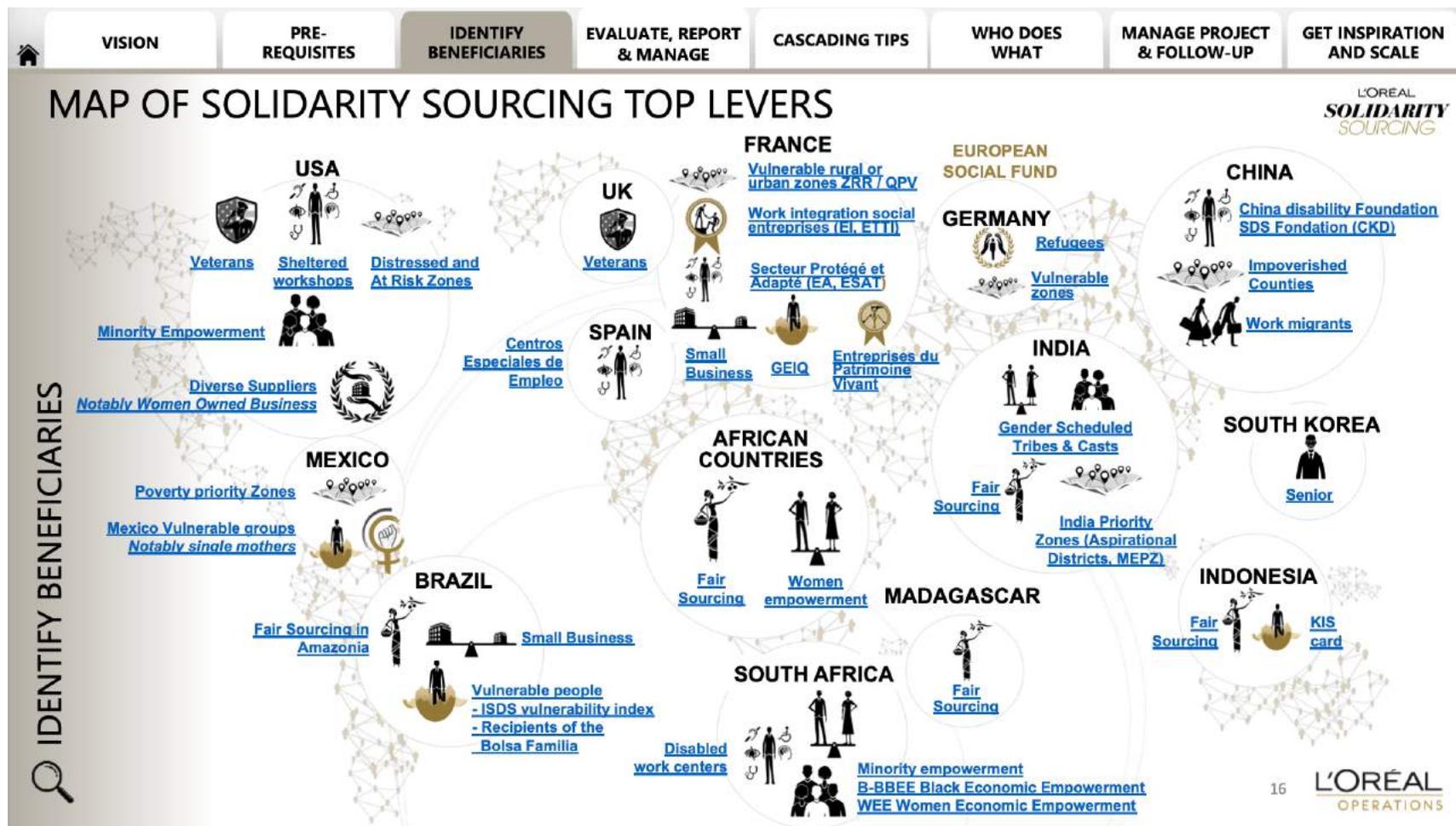

LINK TO QUICK DEFINITIONS



STEP 2.1

Set your Inclusive Sourcing impact priorities

Map of Solidarity Sourcing top levers, L'Oréal Solidarity Sourcing Toolkit



STEP 2.4

Deploy the first pilots and build an overall roadmap

Template example to structure project, Veolia (1/2)

SOCIAL PERFORMANCE	Industrial Uniform - Indigenous Supply			BUSINESS UNIT / SCOPE		Veolia (Tick the box)	Energy	Water	Waste
				Veolia Australia		X	X	X	
	Project / solution description Veolia Australia's current national industrial workwear supplier is a 100% Indigenous owned and operated supplier and looking at whole of life (WOL) solutions for garment recycling will: <ul style="list-style-type: none"> Contribute directly to government Indigenous Procurement Targets (\$) Support circular economy opportunities Drive social, environmental and safety outcomes through supply chain Consolidate vendors - maximise commercial value Consolidate and reduce number of garments - increase uniformity and improved brand 					Multi-faceted performance contribution			
						Eco & Fin	Profitability Indicator: Profitability savings related to vendor and catalogue consolidation		
						HR	Safety at Work Indicator: through having a National uniform policy		
						Env	Explore textile recycling opportunities, reduce Veolia's garment wastage and GHGs emissions		
						Comm	Innovative solutions: New business model developed to support an Indigenous business		
						Soc	Job and wealth creation + socio-economic footprint (refer Note)		
	Target Suppliers		Target clients (internal) All Veolia AU departments Site leaders & Operational staff	Co-innovation partners Sustainability Safety, Health, Environment and Quality	PURCHASE AMOUNT POTENTIAL				
					Predicted quantities :		Environmental gains : Textile recycling		
				Project impact on the balance sheet :		Social gains : Supporting Indigenous suppliers - create jobs in marginalised communities and donation of repurposed goods.			
				Cost optimized :		Territorial value creation : Standardised and consistent uniforms across all business units.			
Available resources / assets / means <ul style="list-style-type: none"> Bunzl Safety Cole Supplies Veolia COO endorsement and sponsorship Sustainability Safety, Health and Quality Stakeholders 			Missing resources / assets / means <ul style="list-style-type: none"> Change Management Plan currently under development with interns business partners. Supplier's business model and related logistics infrastructure (underway) 		Next Steps <ol style="list-style-type: none"> Measure savings related to vendor and catalogue consolidation (today onwards) HR to develop national uniform policy (Q4 2021) Explore Textile Recycling Opportunities (commence now - 2022) Explore the opportunity of similar business models with other suppliers (Q3 2021) 				
Note : Job and Wealth creation: Opportunity to donate repurposed materials or workwear through recycling. Supports socio-economic footprint by contracting a marginalised supplier (Indigenous) and enabling indirect jobs in a community that has 46.6% employment rate compared to 72% in the non-indigenous community									

STEP 2.4

Deploy the first pilots and build an overall roadmap

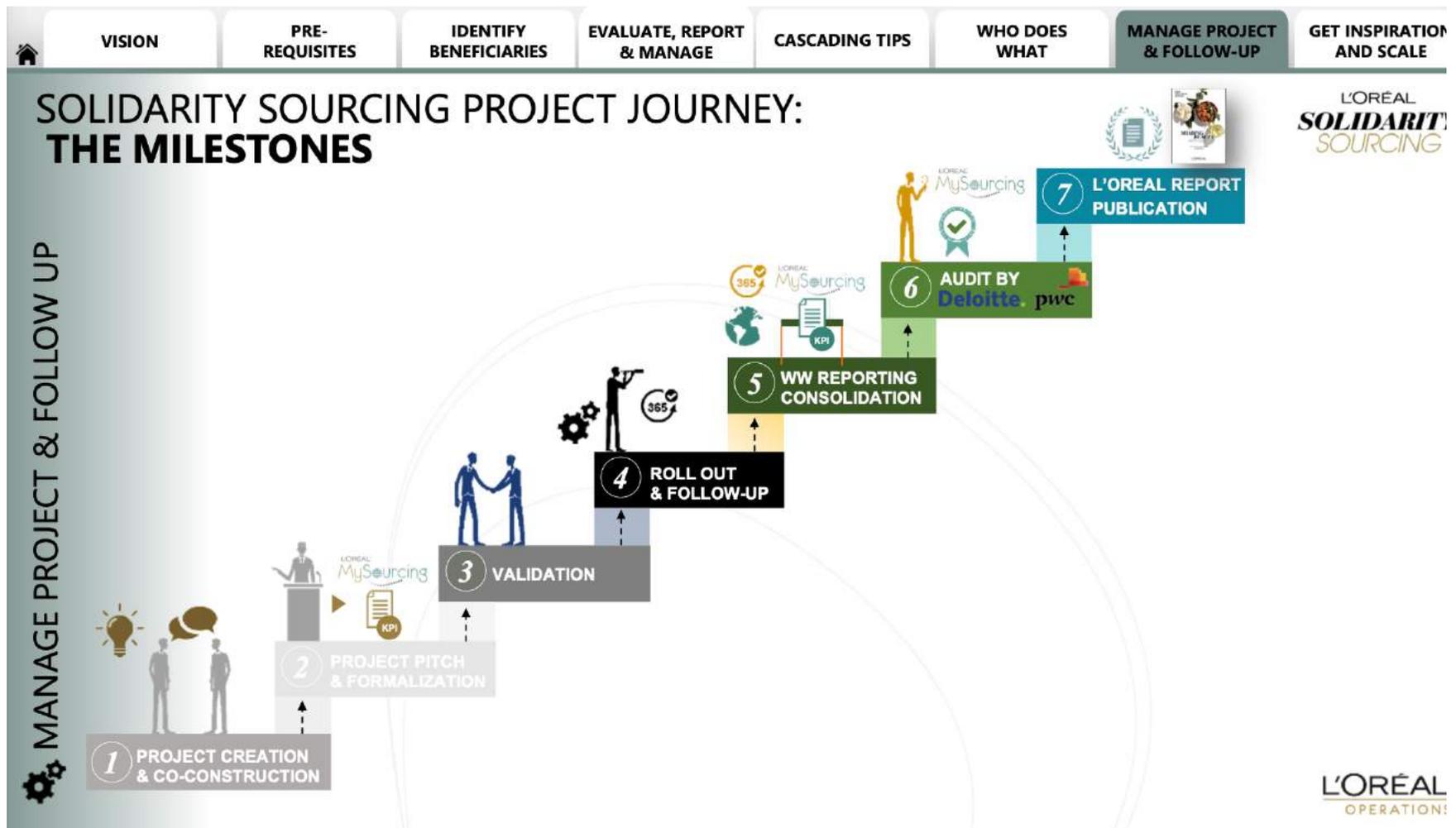
Template example to structure project, Veolia (2/2)

(PURCHASING STRATEGY PILLAR)	(PIVOT PROJECT NAME)		BUSINESS UNIT / SCOPE		Veolia	<u>Energy</u> ✓	<u>Water</u> ✓	<u>Waste</u> ✓	
	Projet / solution description			Business model shift		Multi-faceted performance contribution			
	Description of the solution / new business created (value proposition, market differentiation)			TCO	Description of the elements to include in the TCO vision	Eco & Fin	Description		
				TCE		HR			
				TCS		Env			
				TCU		Comm			
				TCUP		Soc			
	Target Suppliers	Target clients (internal)	Co-Innovation partners	PURCHASE AMOUNT POTENTIAL					
				Predicted quantities :			Environmental gains :		
				Project impact on the balance sheet :			Social gains :		
			Cost optimised :			Territorial value creation :			
Available resources / assets / means			Missing resources / assets / means		Next Steps				
					<ol style="list-style-type: none"> 1. ... 2. ... 3. ... 4. ... 				

STEP 2.4

Deploy the first pilots and build an overall roadmap

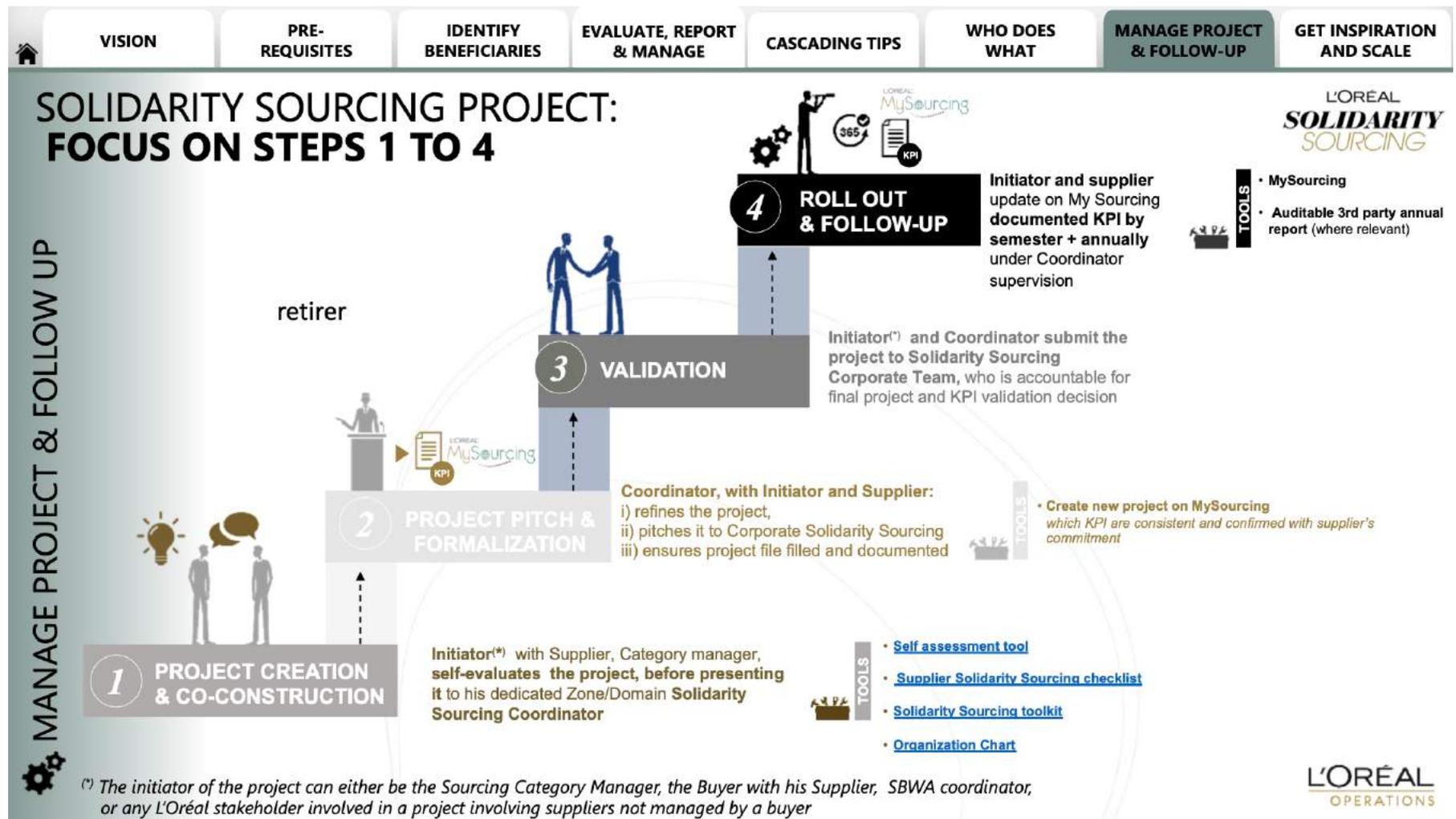
Solidarity Sourcing Project Journey: the Milestones, L'Oréal Solidarity Sourcing Toolkit



STEP 2.4

Deploy the first pilots and build an overall roadmap

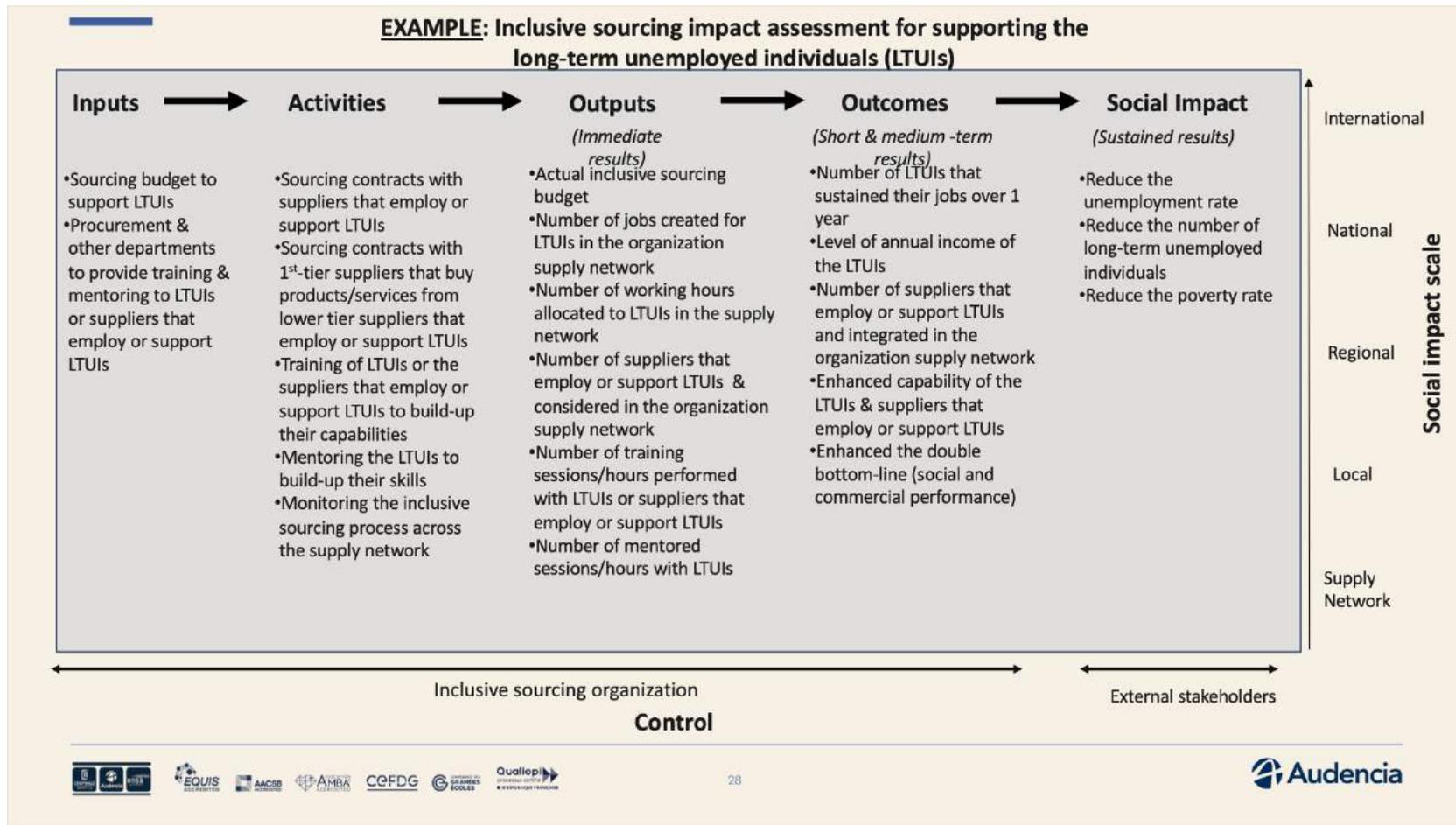
Solidarity Sourcing Project: Focus on Steps 1 to 4, L'Oréal Solidarity Sourcing Toolkit



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Inclusive sourcing impact assessment for supporting the long-term unemployed individuals (LTUIs), Audencia Business School



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Review and update Key Performance Indicators to track progress of the program, L'Oréal Solidarity Sourcing Toolkit

VISION **PRE-REQUISITES** **IDENTIFY BENEFICIARIES** **EVALUATE, REPORT & MANAGE** **CASCADING TIPS** **WHO DOES WHAT** **MANAGE PROJECT & FOLLOW-UP** **GET INSPIRATION AND SCALE**

REVIEW AND UPDATE KEY PERFORMANCE INDICATORS TO TRACK PROGRESS OF THE PROGRAM

L'OREAL SOLIDARITY SOURCING

Absolute KPI are interesting (numerators & denominators below) & even more interesting are the **relative ones** : very useful notably to **benchmark on comparable basis** the best in class **at purchasing category, supplier, country and zones levels.**

The essential Solidarity Sourcing Performance indicators :

- the number (#) beneficiaries/Million€ spend
- the Solidarity Sourcing spend coverage = Solidarity sourcing spend/total spend of your scope
- The % of strategic / A Class suppliers with Solidarity Sourcing projects
- # women beneficiaries
- # people with disabilities beneficiaries (key indicators reflecting 2 of the D&I group priorities)
- The project size = the average # beneficiaries/project

We also recommend to follow on each direct & indirect **purchasing category** and all **geographical scopes**, and their **evolution over years** :

- #Beneficiaries by sourcing center
- #Beneficiaries FOR EACH CATEGORY OF BENEFICIARIES (seniors, refugees, long term unemployed, veterans, minorities, jobs in zones classified as economically distressed...)
- # projects & # master /umbrella projects
- # and % of business units of the Company participating
- # countries of beneficiaries
- # Suppliers with at least 1 project
- # Diverse suppliers supported by category (women-owned, minority-owned, disabled-owned, veteran owned, LGBTQ+ owned)
- # suppliers small businesses supported
- # Buyers with at least 1 Solidarity Sourcing project
- # Third parties involved (NGOs, associations..)
- Within people with disabilities beneficiaries: #through disabled social enterprises and #through "ordinary" committed suppliers
- Investments to finance Solidarity Sourcing projects
- The number of trainings & webinars on Solidarity Sourcing (internally & externally)
- The number of people trained on Solidarity Sourcing
- The number of supplier individual coaching & mentoring sessions - to support them analyzing their specific activity & designing their roadmap
- The number of coordinators in the solidarity Sourcing WW network
- The % of sourcing centers and % spend covered with Solidarity Sourcing designated coordinator/SUN
- The number and % strategic suppliers assessed against the supplier D&I supplier checklist

EVALUATE, MEASURE & REPORT

STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Beneficiaries : Counting Methodology, L'Oréal Solidarity Sourcing Toolkit (1/3)

VISION
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BENEFICIARIES : COUNTING METHODOLOGY

How to count the beneficiaries?

- The number of underprivileged people benefiting from the Solidarity Sourcing is proportionated to the L'Oréal's related activity
- On a full year basis, in consistency with the local working time

- Calculation and reference external standards documenting the project are co-edited by Buyer & Supplier
- NEW!** An electronic checkbox on *MySourcing* portal is replacing the former Statements A and B , for supplier auditable commitment.

Please refer to the beneficiary definition

1

Full Time Equivalent (FTE)

This is the general case, where the beneficiaries have a full-time equivalent job and corresponding annual income.

Calculation :

directly prorated to L'Oréal business weight in the concerned supplier activity

OR

2

Headcounts

For Fair Sourcing raw materials projects, where beneficiaries often have various activities, types of cultures, and sources of incomes .

Calculation :

Also based on L'Oréal volumes, with an ad hoc **individual impact threshold**, supported by an independent referential, making sense with regard to local specificities.

The ratio (number of beneficiaries/ME spend) is an instrumental KPI to monitor Solidarity Sourcing performance at category, supplier and cross-zones levels. It notably helps to evaluate the potential through benchmark and gap analysis.

EVALUATE, MEASURE & REPORT



STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Beneficiaries : Counting Methodology, L'Oréal Solidarity Sourcing Toolkit (2/3)

The screenshot shows a navigation menu at the top with tabs: VISION, PRE-REQUISITES, IDENTIFY BENEFICIARIES, EVALUATE, REPORT & MANAGE (active), CASCADING TIPS, WHO DOES WHAT, MANAGE PROJECT & FOLLOW-UP, and GET INSPIRATION AND SCALE. The main content area is titled 'BENEFICIARIES : COUNTING METHODOLOGY' and features the L'Oréal Solidarity Sourcing logo. A vertical sidebar on the left reads 'EVALUATE, MEASURE & REPORT'. The main content is divided into sections:

- 1 Full Time Equivalent (FTE)**

It consists in simply reporting the number of underprivileged people prorated to L'Oréal weight in the Supplier's activity.

Examples :

 - Everytime possible, **FTE prorated to L'Oréal volumes** : a promo bag supplier in China employing 100 underprivileged employees produces for L'Oréal 500ku, which represents 25% of its 2000 ku total annual volumes.
Then the number of Solidarity Sourcing beneficiaries is $100 \times 25\% = 25$.
 - Alternatively, **FTE prorated to L'Oréal spend** for the activity concerned by the Solidarity Sourcing project:
If L'Oréal business represents 28% of the business in value of the supplier, then the number of Solidarity Sourcing beneficiaries is $100 \times 28\% = 28$
- Alternatively, if there is a specific productivity for L'Oréal, due to more complex construction for instance, the supplier may propose his calculation based on the exact **number of hours of work necessary for L'Oréal orders**.
Here for instance if the supplier justifies 10ku/FTE for L'Oréal particularly about intensive productions, the number of beneficiaries is $500/10 = 50$
- In the 3 cases, the supplier is accountable for the consistency with the local legal working time: $1 \text{ FTE} = X \text{ hours/year}$.

The page number 31 and the L'Oréal Operations logo are visible in the bottom right corner.

STEP 2.5

Define the KPIs to monitor to both measure progress and continuously improve your social, environmental, and business impact

Beneficiaries : Counting Methodology, L'Oréal Solidarity Sourcing Toolkit (3/3)

The screenshot shows a navigation menu at the top with the following items: VISION, PRE-REQUISITES, IDENTIFY BENEFICIARIES, EVALUATE, REPORT & MANAGE (highlighted), CASCADING TIPS, WHO DOES WHAT, MANAGE PROJECT & FOLLOW-UP, and GET INSPIRATION AND SCALE. The main content area is titled 'BENEFICIARIES : COUNTING METHODOLOGY' and features the L'Oréal Solidarity Sourcing logo. A vertical sidebar on the left is labeled 'EVALUATE, MEASURE & REPORT'. The central content is titled '2 Headcounts' and includes the following text:

In some cases the sole prorated time working on L'Oréal activity does not reflect accurately the number of beneficiaries. It is generally the case for small farmers and pickers for natural raw materials. It is also the case for some very small enterprises.

The Supplier supports then the definition of an individual **impact threshold** to capture the **headcounts benefiting from the project**.

It is about agreeing, based on a **independent third party** referential, on an **ad hoc tangible criteria** that make sense regarding **the local stakes**. This is the threshold from which the **improvement on the individual life** is substantial enough to consider one person as a beneficiary on an annual basis, **compared to the relevant baseline** of the project.

Examples :

Number of persons getting a substantial income increase (local threshold to be defined using a third party referential, with regard to local standard of living), overcoming poverty rate or any form of dependency, getting access to a pivotal benefit such as a vocational training entailing productivity gains, getting included in the formal economy and the social protection system...

Let's take as an example a raw material purchased by L'Oréal : from Xkg by person (volume harvested) at the fair & sustainable conditions, an NGO confirms the impact on the person standard of living as substantially higher compared to the defined baseline.

At the bottom right, the page number '32' and the L'Oréal Operations logo are visible.

STEP 3.1

Formalize overall Inclusive Sourcing commitment to communicate internally and externally.

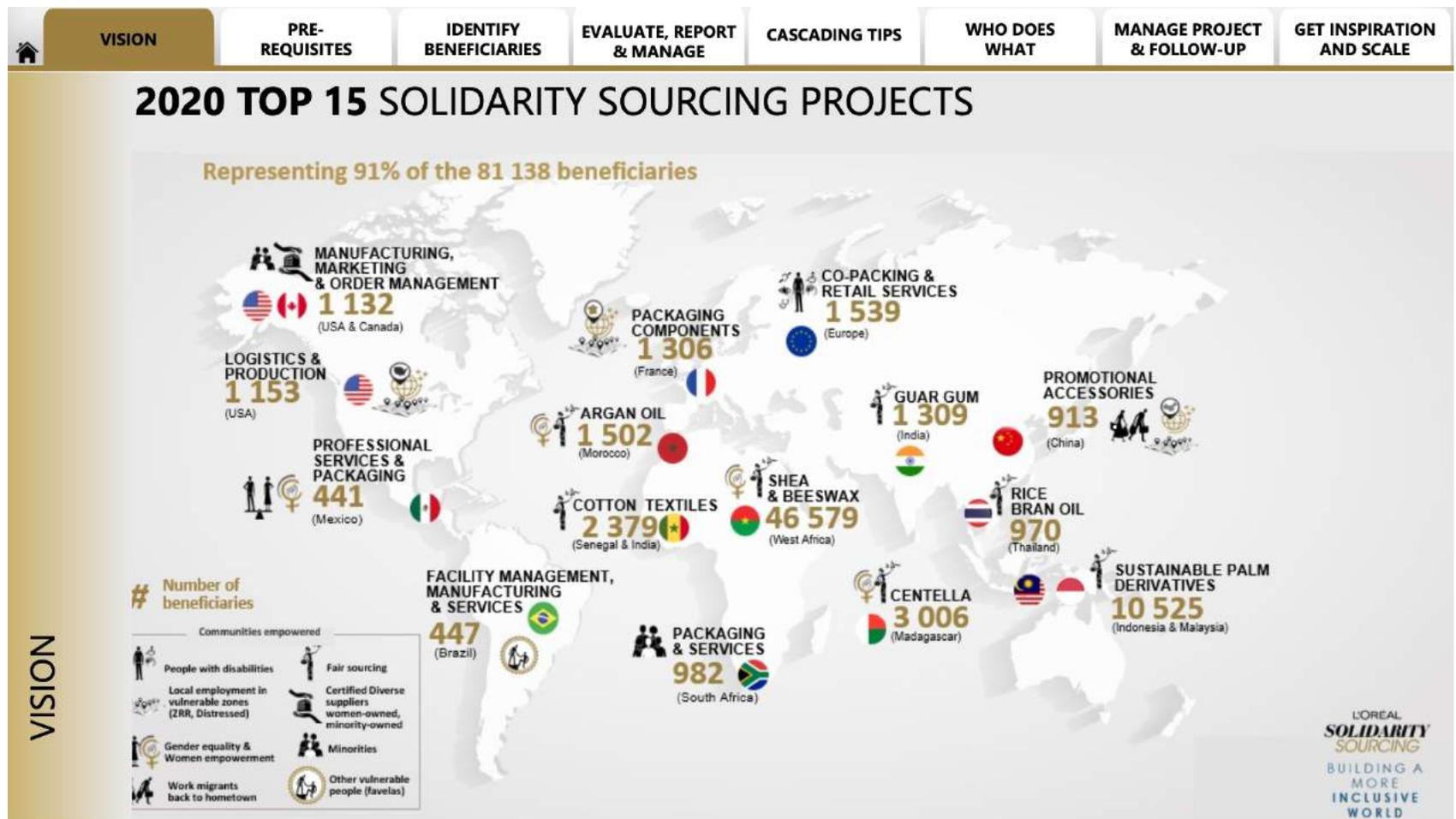
Materiality Matrix, Keurig Dr Pepper



STEP 3.5

Communicate on your Inclusive Sourcing strategy and achievements, both internally and externally

2020 Top 15 Solidarity Sourcing Projects, L'Oréal Solidarity Sourcing Toolkit



Additional sources and tools

L'Oréal Speak Up policy and website:

<https://www.loreal.com/en/articles/commitments/speak-up-policy/>

<https://www.lorealpeakup.com/>

Keurig Dr Pepper's Commitments to the UN Sustainable Development Goals:

<https://www.keurigdrpepper.com/content/dam/keurig-brand-sites/kdp/files/KDP-CR-Report-2020.pdf> (p. 7)

Keurig Dr Pepper's 2020 Social Impact Projects:

<https://www.keurigdrpepper.com/content/dam/keurig-brand-sites/kdp/files/KDP-CR-Report-2020.pdf> (p. 25)

Acknowledgements

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