

BUYER CASE STUDY

Herbalife and Oracle Financing: Global Coverage and Sustainability Key to Successful Partnership

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IDC OPINION

IDC's analysis of the business relationship between Herbalife International and Oracle Financing Corp. confirms our most recent research findings that highlight the role of customer service in maintaining and growing a leasing portfolio or finance business. Just weeks before our research project with Herbalife began, we published the results of an exhaustive study of the needs and wants of end users who lease or finance IT equipment, software, and services (see *2007 IT Leasing and Financing End-User Survey: Customer Needs and Wants*, IDC #207435, July 2007). One of the central messages from this document that came through clearly was that if end users are dissatisfied with the customer service they are receiving, they will look for a new finance/leasing provider, regardless of other positive factors such as cost and convenience. Our conversation with Herbalife VP of Finance and Treasurer Bill Lowe confirmed that exceptional customer service is essential to thrive in this business; Oracle Financing's responsive customer service and the trust built up over a five-year partnership have strengthened the business relationship to the point where it is difficult for a new leasing/finance provider to displace the incumbent. As part of a sound procurement management process, the company always seeks competitive quotes, but Oracle Financing usually wins. Because of the level of support it provides to Herbalife, Oracle Financing has ensured that there is no low-hanging fruit for its competitors to pick. Because Oracle deals with Herbalife in a consistent, competitive, and responsive manner, the two companies have developed an unusual level of trust that manifests itself in repeat business and a stronger business relationship. IDC sees the following traits as essential in emulating this relationship:

- ☒ **Sustainable rates.** Herbalife is not so much concerned with getting a one-time aggressive rate. Rather, it is more interested in receiving a consistently competitive rate that is sustainable over time.
- ☒ **High level of trust.** Herbalife and Oracle Financing use a customized MLA that is implemented across all leases. Because of the trust that each lease agreement will contain the same elements, Herbalife does not have to waste time reviewing and modifying each individual lease.
- ☒ **Worldwide coverage.** Herbalife products are sold in more than 65 countries around the globe, with the majority of Herbalife's business done outside the United States. Herbalife's having a partner that can provide widespread geographic coverage is essential.

IN THIS BUYER CASE STUDY

This IDC Buyer Case Study examines the ongoing customer/supplier business relationship between Herbalife International and Oracle Financing, a wholly owned subsidiary of Oracle Corp. Oracle Financing funded a significant portion of an IT infrastructure upgrade for Herbalife as it revamped its internal systems critical to its sustained operations and continued growth.

SITUATION OVERVIEW

Organization Overview

Herbalife is a nutrition and direct selling company that offers weight management and nutritional supplements via a worldwide network of independent distributors. The company was founded in 1980 and has since then grown to \$1.9 billion in net sales. Herbalife has been very successful in the past several years, with record growth and profits. Herbalife's net sales growth exceeded 20% in 2006. About 25% of its business is in the United States, and 75% is outside the United States, with the greatest portion of sales in EMEA.

Because of this strong growth and its global business model, Herbalife identified the need to make significant investments in its IT infrastructure. In 2002, Herbalife made the decision to enhance its enterprise sales history and management functions, and to bring all the different geographies onto a single, uniform system. The company made call center enhancements and improved its customer service and sales systems. As part of this infrastructure upgrade, Herbalife selected Oracle as its systems provider. As part of the overall solution, Oracle Financing was selected to provide leasing and financing services for its own software products as well as the products of other vendors supplying components within the total customer solution.

With Herbalife's new IT system infrastructure, its 1.6 million distributors have direct access to their sales data and the tools to analyze their sales histories. The new tools are more accessible and provide the distributors information upon which to build their sales strategies. As part of the overall system enhancements, Herbalife rolled out an enterprisewide solution accessible via the Internet. As a company with a direct-selling model, its independent distributors are critical to the company's success. Herbalife's mission is to make developing a business as easy as possible for them. The distributor experience is key, and Herbalife wants to help each distributor be successful, stay productive, and stay in the business.

The new infrastructure is built around servers from a tier 1 equipment supplier; networking and telecomm equipment were sourced separated from other tier 1 vendors. In choosing equipment, software, and services, Herbalife's procurement strategies are sound: first, it reviews the total cost of each acquisition, then it moves on to the financing/leasing portion of the transaction. IDC agrees that this is the most advantageous way for an end user to manage the procurement process.

Challenges and Solution

Herbalife's strong growth necessitated an expanded, multinational IT infrastructure. The company needed to enable 1.6 million independent distributors and help them grow their individual businesses for Herbalife to grow. The company's success hinged upon its ability to provide the support and tools needed for a very diverse distribution channel. To provide this expanded range of IT services, Herbalife increased its IT spending from \$10 million to \$15 million annually to a peak of \$40 million to \$45 million during the new software and system implementation process.

An Oracle software sales representative first introduced Herbalife to the Oracle Financing organization. On rolling out the new system, Herbalife commended Oracle's software engineers for working together and making adjustments to the application to meet Herbalife's real-world needs — affectionately referring to this process as "Herbalizing" the application. The company was obviously impressed with the service it received from the vendor, and it parlayed this trust to Oracle Financing.

For Herbalife, a company with 75% of its business outside of the United States and operating in 60 countries around the globe, having a finance partner that can provide its services and operate globally is critical. Oracle Financing operates in 60 countries around the globe.

In addition to traditional "hard" asset financing, such as hardware, Herbalife needed to fund its spending on the "soft" assets such as software and services. IDC has identified that approximately 60% of all IT transactions are made up of software and services. IDC expects that through 2010, software financing will increase at a compound annual growth rate (CAGR) of 7.6% and IT services financing will increase at a CAGR of 5.5% (see *Worldwide IT Leasing and Financing 2007–2010 Forecast: Sizing the Top 25 Global Markets*, IDC #207045, June 2007). Oracle Financing's ability and expertise in funding software and services were important to Herbalife.

Oracle Financing has been a primary supplier because it met Herbalife's requirements in several key areas — high levels of customer service, consistent and competitive pricing, and adequate international coverage to service the company's global expansion. The positive working relationship between the two companies was cemented during the negotiation and implementation of the master lease agreement — most often a negative experience that pits customer and financing provider against each another.

Speaking candidly, Lowe emphasized that Herbalife has little time and desire to negotiate with a competitor. It has been an Oracle Financing customer for five years and has implemented a lease agreement that provides balanced terms and conditions. Because this master lease contract exists, it creates a significant hurdle for another new supplier to overcome. Pleased with the customer service, pricing, and acceptable terms and conditions, the company is the epitome of a "satisfied customer" and sees little reason to enter into discussions with another financing partner.

Results

With Oracle products and funding provided by Oracle Financing, Herbalife has implemented online, real-time tools for its distributors that deliver the full details of enrollment, sales histories, and analysis of sales. These tools provide direction and momentum, helping the distributors be productive and continue to grow their businesses. A critical part of the new system is the customer service and sales component, which maintains customer data on sales history and recent purchases.

Herbalife recognizes the importance of its independent distributors and acknowledges there is risk of these distributors being recruited to sell other products and, possibly, other competitive weight-management and nutritional products. Recognizing that the company's success is directly tied to retaining and growing its base of distributors, Herbalife initiated an exhaustive, end-to-end process review of its sales and customer relationship management processes with the goals of improved usability, effectiveness, and simplicity. To implement these new process improvements, Herbalife concluded it needed to make substantial investments in tools and systems investing in an entirely new system. Ultimately, Oracle was selected as the system provider. As part of the solution, Oracle Financing has provided the capital to support and enable Herbalife's revamped infrastructure by providing leasing and financing products to enable the procurement of new equipment, software, and services.

ESSENTIAL GUIDANCE

IDC's recent research again demonstrates that customer service is a critical component of overall satisfaction — far more important than other factors including cost when it comes to overall client satisfaction (see *2007 IT Leasing and Financing End-User Survey: Customer Needs and Wants*, IDC #207435, July 2007). In the current economic climate focused on cost savings, the fact that professionals involved in and making strategic sourcing decisions rate customer service higher than cost makes a tremendous statement. In recently published research, we found that there is a great degree of difference in the level of customer service IT organizations are receiving from IT leasing and financing providers than they would like to have versus what they perceive they are receiving. Clearly, a large disconnect resonates through much of the market.

In addition to surveys of large numbers of procurement professionals, IDC provides advice and counsel in one-on-one conversations with IT and business executives regarding their strategies for choosing particular vendors and partners. In this study, we have observed the payoff of investment in customer service in two key vendor/customer relationships — between Oracle Financing and Herbalife, and between Herbalife and its independent distributors.

Echoed in the conversation with Herbalife's Lowe was the importance of trust, reliability, and good customer service as the keys to success. High levels of customer satisfaction influenced both the initial selection of Oracle as the software system provider, and with Oracle Financing as the financing provider. Herbalife's "customers" from one point of view are its distributors, which Herbalife calls the lifeblood of its business. The Oracle solution enables the Herbalife distributors to view and maintain

sales information on all of its customers. The solution serves as a central repository for all data and gives the many distributors — with obviously varying levels of CRM systems expertise and general computer knowledge in general — the tools to analyze their customers and their sales and strategize for future growth. Key to maintaining its growing business is making life easier for these 1.6 million distributors located around the globe.

Oracle Financing and Herbalife have developed a successful business relationship built upon trust, service, and sustainability. Herbalife wants a financial provider that will be a consistent, long-term supplier, with no surprises in lease terms. Although other suppliers frequently approach Herbalife with other leasing and financing offers, Lowe is cognizant of the need for sustainability. The one-time, aggressive deal is less important to him; Oracle Financing is a known quantity to Lowe, and the business relationship Oracle and Herbalife have developed has resulted in a level of loyalty and trust, which translates into Herbalife's preference to do business with Oracle Financing.

LEARN MORE

Related Research

- ☒ *2007 IT Leasing and Financing End-User Survey: Customer Needs and Wants* (IDC #207435, July 2007)
- ☒ *Worldwide IT Leasing and Financing 2007–2010 Forecast: Sizing the Top 25 Global Markets* (IDC #207045, June 2007)
- ☒ *Gwinnett County Enables IT Change with Structured Financial Solutions* (IDC #205725, February 2007)
- ☒ *IT Leasing Case Study: MetroHealth* (IDC #203910, October 2006)

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