

## The impact of analytics on the triple bottom line

In 2021, analytics maturity has held consistent with past years. There is room for improvement when it comes to use of analytics in the environmental, social, and governance (ESG) domain.

The Analytics Impact Index (Aii) is a global benchmark to help executives understand their company's relative analytics capabilities and impact. Launched in 2018, the Index is a collaboration between Melbourne Business School, one of the world's top business schools, and Kearney, a leading global management consulting firm.

The Aii provides an objective annual benchmark of return of analytics as a proportion of total profit. In our latest study, we widened the lens to also explore how analytics contributes to environmental, social, and governance (ESG) performance. Why? Pressures are mounting for companies to be accountable for far more than generating a profit. Increasingly, they are expected to deliver on a "triple bottom line" that also includes their social and environmental impacts.

A recent Kearney [study](#) has shown that in Australia, 37 percent of CEOs in the past five years (up from 10 percent in the previous five years) have moved on due to non-financial performance reasons. Environmental sustainability has become a key feature of many long-term strategies, as shareholders push organizations to address the ongoing threats of climate change (COP26), pollution, and biodiversity. In addition to financial performance, leaders today need to ask themselves: What is our overall effect on the planet, and how can we better support global ecosystems? How can we improve diversity, equity, and inclusion within our organization? How can we better report and manage risk?

Analytics, in conjunction with other [Industry 4.0 technologies](#), is a core driver of present-day efforts to support all dimensions of the triple bottom line. With the right implementation of analytics and digital technologies, firms can enable new efficiencies throughout new production methods or an optimized supply chain. For example, companies can use data-based insights to assess supplier performance trends to then provide visibility into supplier governance. Companies can also utilize analytics to optimize their distribution network, enabling them to minimize environmental impact caused by transportation.

In 2021, we assessed more than 330 companies and found that overall analytics maturity is declining, which is in contrast to previous years which saw steady increases, given the strong correlation between analytics maturity and profitability. However, we also found that analytics' contributions to the ESG components of the triple bottom line are nascent. In this year's Analytics Impact Index, along with the usual analyses of profit impact of analytics, we consider the value of addressing the triple bottom line through analytics and explore opportunities that organizations might pursue.

**The Aii provides an objective annual benchmark of return of analytics as a proportion of total profit.**

# The Analytics Impact Index

Melbourne Business School and Kearney surveyed more than **330 companies** from more than **39 countries** and **35 industries**, with a **median revenue of \$593 million** to develop the 2021 Analytics Impact Index (see figure 1 on page 3). The Index provides organizations with an opportunity to reflect on their own analytics capabilities and share the potential value in further embedding analytics.

The Index compares organizations on two factors: the maturity of the analytics operating model (in other words, how advanced the analytics function is), and the impact of analytics on the organization's profitability.

Maturity is assessed along four dimensions (see figure 2 on page 4):

**Strategy and leadership.** This dimension looks at the company's strategic direction for analytics and who is driving it.

**Culture and governance.** This dimension covers the operating structure and processes that are in place to support analytics, including the company's attitude toward analytics and analytics change management.

**Talent and skills.** This dimension measures the human aspect of analytics—everything from recruiting the right people with the right skills to retaining, developing, rewarding, and working with them effectively.

**Data ecosystem.** This dimension relates to the technological infrastructure and data management framework that is in place to enable analytics, examining how a company develops and implements architectures, policies, practices, and procedures to manage their full data life cycle requirements.

Organizations can be grouped into four stages of maturity based on their analytics capabilities (see figure 3 on page 4):

**Laggards.** The organization makes basic use of analytics, usually limited to descriptive analyses of data, to retrospectively report on performance. They usually lack the analytics strategy and the culture needed to move forward.

**Followers.** The organization uses analytics to diagnose business problems and manage costs. This is largely made up of inferential modeling, and analytics is not used to inform strategic business decisions. There is no evidence of an analytics culture championed by top management.

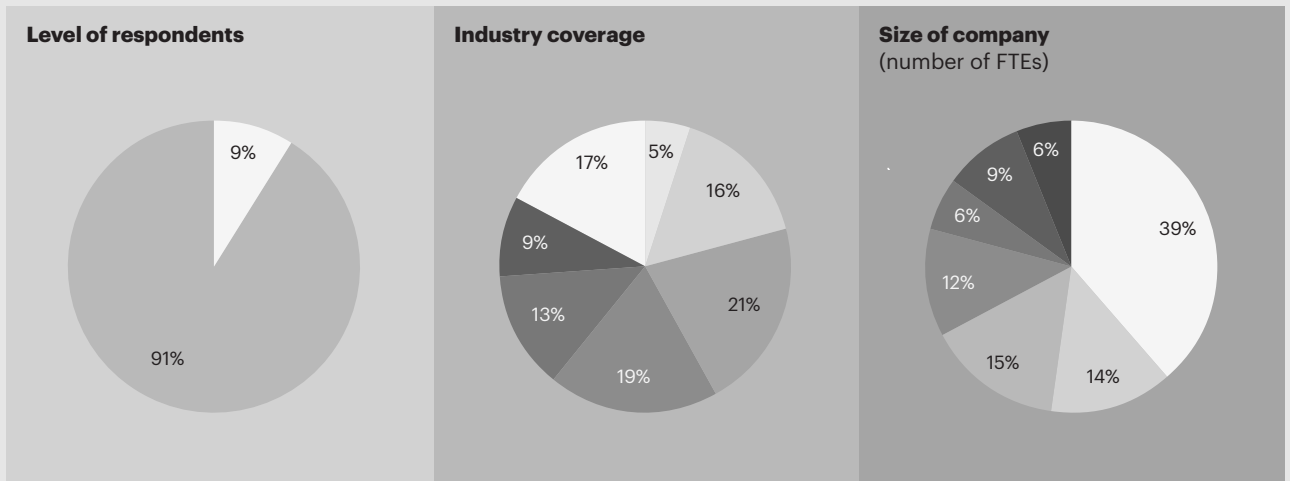
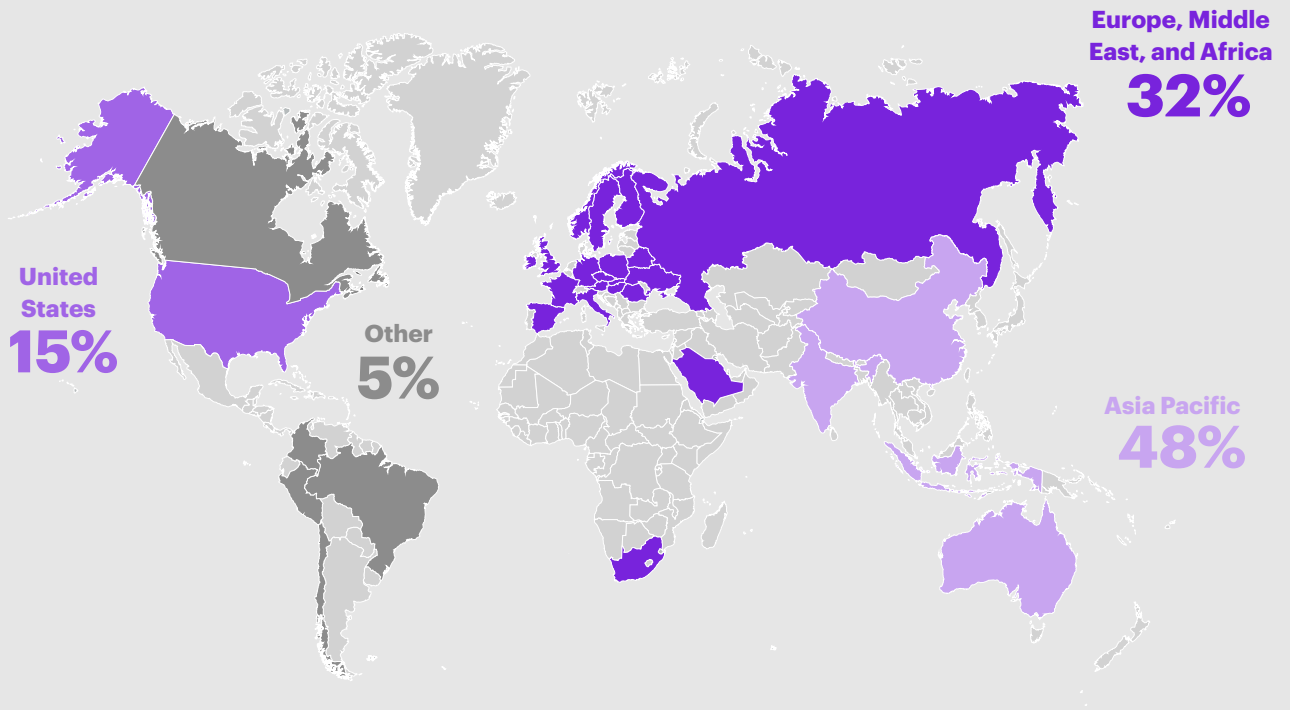
**Explorers.** The organization uses analytics to optimize performance by diagnosing drivers and predicting outcomes. Although they have some analytics strategy in place, they don't have a well-developed culture of data-driven decision-making across the organization.

**Leaders.** The organization has a clearly defined analytics strategy that aligns with the overall business strategy. The C-suite has a clear commitment to analytics and fosters a culture of data-driven decision-making. They use real-time analytics to drive innovation and create a competitive advantage across all areas of the business.

**The Index provides organizations with an opportunity to reflect on their own analytics capabilities and share the potential value in further embedding analytics.**

Figure 1

**The Analytics Impact Index covers a diverse range of companies**



- CXO, director/vice president
- Manager and other

- Automotive, aerospace, and defense
- Consumer industries and retail
- Communications and media
- Energy
- Financial
- Health
- Others

- 1-50
- 51-200
- 201-1,000
- 1,001-5,000
- 5,001-10,000
- 10,001-50,000
- >50,000

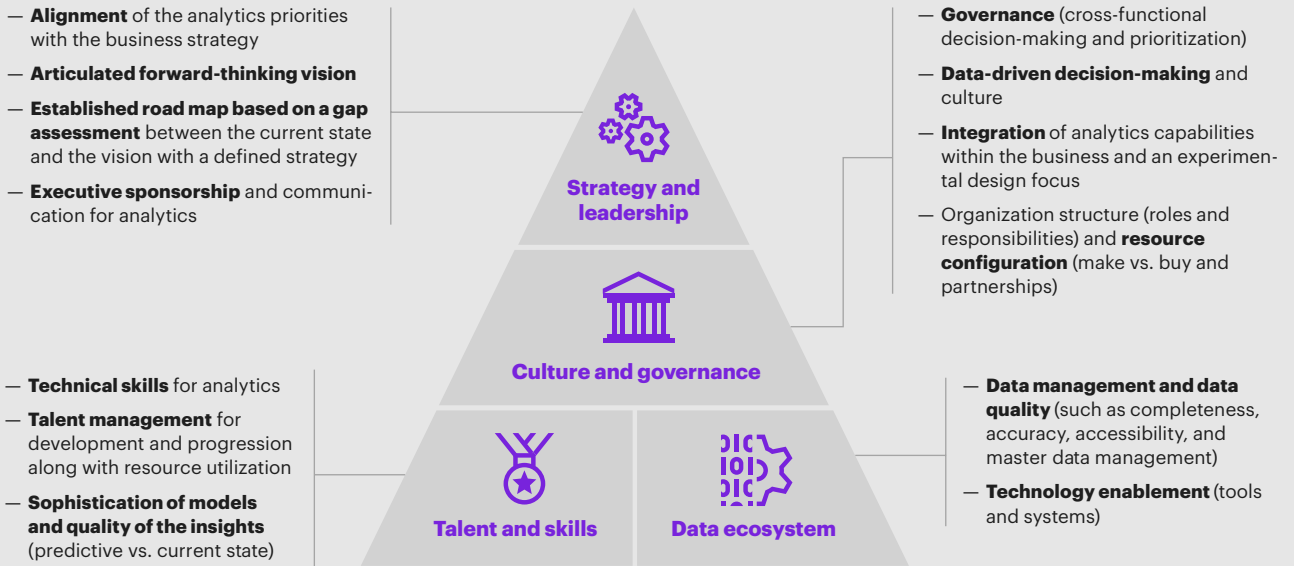
Notes: FTE is full-time employees. Numbers may not resolve because of rounding.

Sources: Melbourne Business School; Kearney analysis

Figure 2

## Analytics maturity is measured in four dimensions





### Maturity assessment framework



Sources: Melbourne Business School; Kearney analysis

Figure 3

## Companies can be categorized into four stages of analytics maturity

	 <b>Laggards</b>	 <b>Followers</b>	 <b>Explorers</b>	 <b>Leaders</b>
<b>Analytics type</b>	Descriptive	Diagnostic	Diagnostic and predictive	Real time
<b>Primary purpose</b>	Reporting	Managing cost drivers	Optimizing business performance	Innovating, driving competitive advantage
<b>Analytics strategy</b>	Nascent	Nascent	Basic	Clearly defined
<b>Data decision culture</b>	Nascent	Nascent	Partially developed	Fully developed

Sources: Melbourne Business School; Kearney analysis

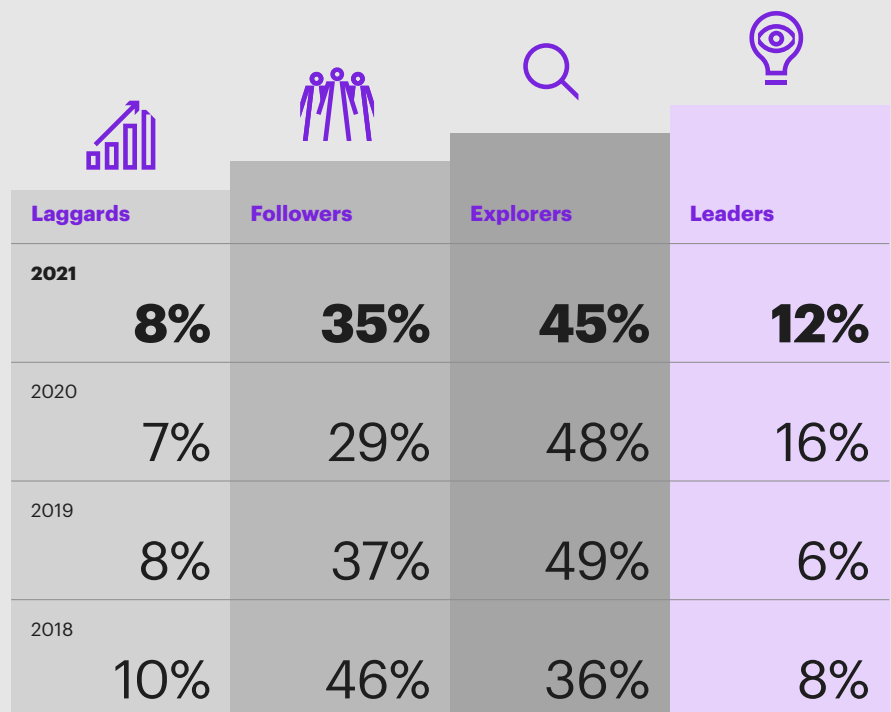
## Maturity distribution over the past four years

The pace of year-over-year maturity development slowed somewhat in 2021, perhaps as a symptom of the global pandemic. Twelve percent of organizations are now considered Leaders, embedding analytics within the organization and taking advantage of its potential across business domains. This is a shift down from 2020, when 16 percent of companies studied were Leaders. Overall, the proportions of analytics maturity are relatively consistent across the four years (see figure 4).

As global maturity inevitably rises, Leaders need to look for new ways to distinguish their analytics capabilities. Last year, we saw that AI and the use of big data are two of the ways Leaders are progressing analytics within their organization. This year, we see a similar trend on the use and impact of analytics across the triple bottom line, creating a divide between the top and the bottom.

Twelve percent of organizations are now considered Leaders, embedding analytics within the organization and taking advantage of its potential across business domains.

Figure 4  
**Analytics maturity has remained consistent across the past four years**



Sources: Melbourne Business School; Kearney analysis

# What characterizes an analytics Leader?

## A centrally led operating model

A clear analytics strategy and road map differentiates Leaders from other organizations, with most spearheaded by a C-suite executive (45 percent). These analytics teams led by C-suite executives generate 34 percent more value than those of their managerial counterparts.

Additionally, most Leaders (84 percent) deploy a centrally led analytics operating model to drive analytics within the organization (see figure 5). This operating model lends well to analytics, enabling organizations to develop and manage the infrastructure, capability, and operations within their analytics teams. It also enables Leaders to effectively track the success of their analytics projects: 92 percent of Leaders say their analytics KPIs are understood and monitored, while only 47 percent of others claim the same.

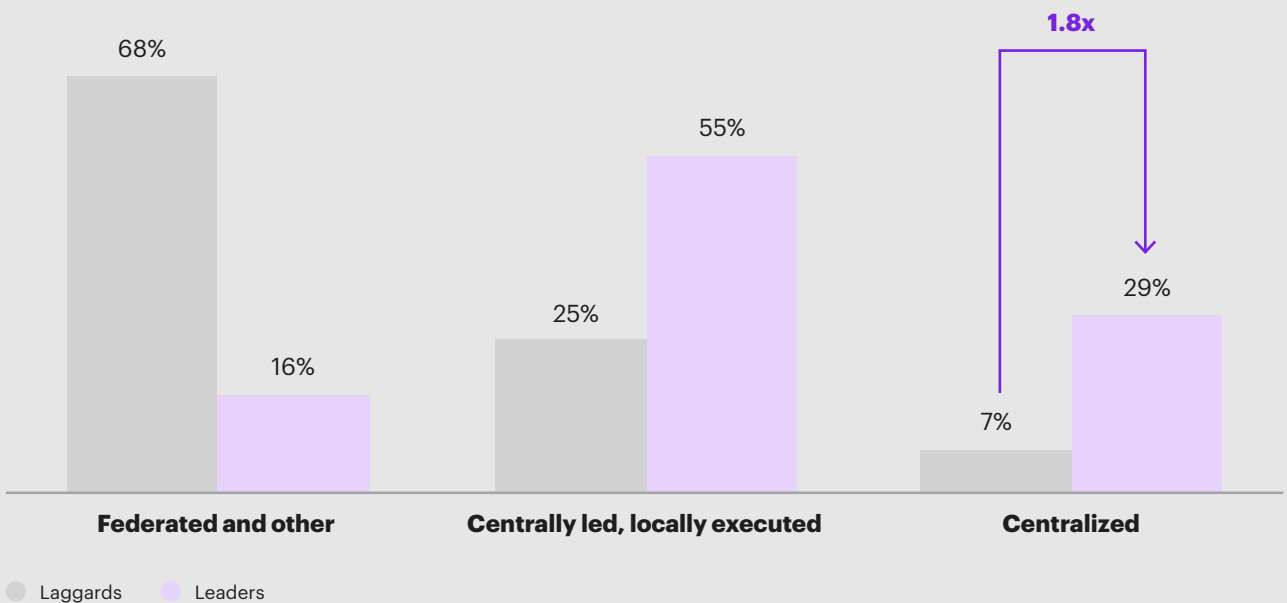
## Skill set aligned with ambition

There is a large gap in talent development and retention capabilities between Leaders and their counterparts. Leaders are proactive when it comes to hiring, managing, and growing analytics talent. Analytics employees are well-qualified and highly utilized to make the most of individuals' specialized skill sets. Additionally, external contractors are easily accessible as required to fill any gaps.

Leaders also understand very well the importance of knowledge and training when it comes to analytics, as it ensures that the organization is analytically capable. Not only are analytics training resources provided to analytics employees to keep up with the constantly changing environment, but resources are also provided across the entire organization. Eighty-two percent of Leaders say that training programs are accessible for employees to attain advanced analytics capabilities, while 74 percent of Leaders also provide training to the entire organization on advanced analytics topics. These characteristics have remained consistent among Leaders since the inception of the Aii in 2018.

Figure 5  
**Most analytics leaders have a centrally led organizational model**

Analytics operating model by maturity



Sources: Melbourne Business School; Kearney analysis

## Data-driven decision-making

Two distinguishing capabilities of Leaders are their data-driven decision-making and a clear understanding of the benefits of analytics. Decision-making processes are driven and supported with robust data analysis. In addition, Leaders distinguish themselves through their clear understanding of the benefits of analytics.

Ninety-five percent of Leaders have a strong analytics-driven culture, compared with 36 percent of other organizations. Leaders also differentiate through a regular use of data-driven insights, with insight quality being a top priority to drive accurate and effective results.

Eighty-two percent of Leaders have C-suite or director-level leaders heading their analytics operations compared with 29 percent of Laggards, a pattern that is consistent with our 2020 study. Dedicated C-level executives, such as a chief data officer or chief analytics officer, act as sponsors to drive analytics efforts across the organization. Fifty percent of Leaders have an analytics translator—someone who helps take business questions and requirements and translates them into analytical problems, and vice versa, translates the analytics output back into business insights. Regardless of maturity stage, there is room for improvement here, as an analytics translator plays a very important role in bridging the gap between the technical practitioners and the non-technical business decision-makers, and vice versa.

## State-of-the-art data ecosystem

Analytics Leaders outshine Laggards in the effectiveness of their data policies, processes, and technology. Ninety-two percent of Leaders have data infrastructure that sits across the organization with well-maintained data warehouses, as opposed to 43 percent for other organizations. Eighty-seven percent of Leaders also regularly augment their enterprise data with external data sources to bolster trustworthiness and accuracy.

Eighty-two percent of Leaders also invest time and resources to address and ensure compliance with data ethics issues, such as data privacy, data security, algorithmic bias, and the GDPR, as opposed to 66 percent for other organizations. These organizations also make sure to document internal data ethics policies to ensure consistency across departments. Overall, data governance is crucial to Leaders.

Seventy-nine percent of Leaders use and invest in sophisticated tools, programs, and platforms and use advanced technologies such as natural language processing, machine learning, and robotic process automation, as opposed to 22 percent for other organizations. These organizations regularly evaluate technology platforms to ensure they are meeting evolving needs over time.

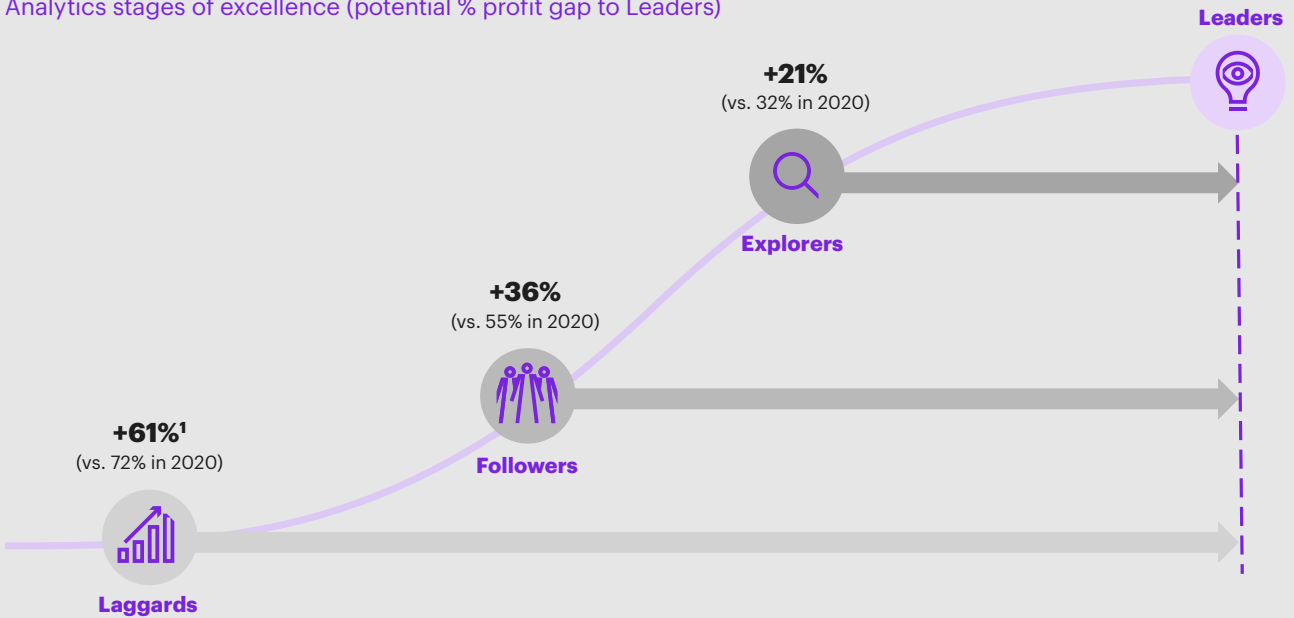
**Ninety-two percent of Leaders have data infrastructure that sits across the organization with well-maintained data warehouses.**



Figure 6

## Returns are correlated with analytical maturity

Analytics stages of excellence (potential % profit gap to Leaders)



<sup>1</sup>Potential profit uplift refers to the increase in overall profit if a company were to increase its analytical maturity to the level of a Leader, holding all other variables constant.

Sources: Melbourne Business School; Kearney analysis

## The financial impact of analytics

The Analytics Impact Index provides an objective assessment of the impact of analytics investments as a proportion of an organization's total profit. This proportion is calculated by modeling the profitability across all organizations with regard for factors such as geographic region, industry, size, and the previous year's profitability for the organization.

As one may expect, a higher level of analytics maturity is associated with a greater financial impact from said analytics. However, the trend appears to exhibit diminishing returns in the percentage of profits as organizations mature, which may be an effect of the exhaustion of quick wins earlier on in their analytics transformation. That's not to say analytics growth stagnates, however, as forward-thinking decision-makers continue to persist and grow their organizations' analytics capability, looking beyond percentages to the uplift in dollars instead.

Laggards could increase their overall profit by an average of 61 percent if they were to develop their maturity to the level of Leaders, holding all other factors constant (see figure 6). The potential overall profit increase for Followers has decreased to 36 percent compared with 54 percent last year, while the profit potential for Explorers has also decreased from 32 percent to 21 percent. Large investments in terms of time and resources are often required to increase analytics profits and improve maturity across the four dimensions of the Index.<sup>1</sup>

<sup>1</sup> The methodology to calculate these results was changed in 2021 to make it more robust. The results reported in the 2020 Aii whitepaper have been adjusted to reflect the same methodology, so that a like-for-like comparison can be made across the two years.

# Analytics and the triple bottom line

## The triple bottom line (TBL)

Kearney recently conducted a [study](#) that shows that there has been a 27 percent increase in involuntary CEO departures over the past 10 years (across two five-year periods). These are primarily attributed to non-financial factors—primarily related to ESG issues.

What was once simply an accounting framework now increasingly defines the way organizations evaluate their performance. Beyond financial performance, the triple bottom line emphasizes contributions to environmental health, social well-being, and risk. These factors can be evaluated through the Global Reporting Initiatives ([GRI Standards](#)) and the universal framework of environmental, social, and governance (ESG). As society evolves, financials are no longer the sole defining factor of a company's performance, and we have seen TBL and governance initiatives at the forefront of organizational agendas.

In assessing and driving the TBL within an organization, the use of analytics is becoming increasingly important. For example, analytics used for TBL initiatives include the use of predictive analytics and modeling to predict an organization's future diversity and pay levels in both the near and long terms. Analytics is also increasingly used to optimize supply chains and manufacturing operations to continually reduce waste throughout the value chain. Additionally, organizations globally are beginning to use analytics to address climate change scenarios, as well as to streamline internal and external governance and reporting. Overall, analytics maturity in this space is still very nascent, and we expect this to grow as TBL becomes more important.

## The first step to progressing one's analytics capabilities within TBL is aligning analytics strategy with the overall TBL strategy.

## Applying analytics to the triple bottom line

Many companies realize the importance of analytics when it comes to general monitoring. However, beyond simple diagnosis and reporting, only 30 percent employ analytics to develop predictive and prescriptive strategies regarding TBL and governance.

There is no doubt that analytics has broad and promising applications within the pillars of TBL. But what are the barriers to doing so for companies? And how can companies work toward improving these analytics capabilities? In a recent transformation of a large CPG company's distribution network, trade-customization, and e-commerce strategy, Kearney was able to achieve substantial emission reductions through the network's redesign. Through this effort, the client was able to drive overall 11 percent mileage reductions that led to 6,700 metric tons of CO<sub>2</sub> (or 110,000 trees grown for 10 years) in emission reductions. Traditionally, the analytic focus of the work would have been understanding impact on service levels delivered and efficiency but today the ESG impact must also be analyzed and inform the final solution.

The biggest barriers for companies in progressing analytics capabilities within environmental and social impact are the lack of a clear linkage between analytics and environmental sustainability or social responsibility, the lack of a clear analytics strategy, and the lack of necessary systems or processes. Often, we see that it is not a lack of analytics capability within organizations, but it is a lack of direction or support throughout that is a major roadblock.

The first step to progressing one's analytics capabilities within TBL is aligning analytics strategy with the overall TBL strategy, which should ultimately be linked to the organization's purpose. If the broader goals are not aligned, the effects of any initiatives here are diminished. Twenty-three percent of companies have an aligned strategy, and they are using analytics for building recruitment strategies (56 percent), addressing diversity, equity, and inclusion (55 percent), as well as optimizing logistics to reduce overall emissions (52 percent). So there is much room for improvement, be it at the overall level or the specific application of analytics to improving the triple bottom line.

## How can analytics drive value?

### Environmental sustainability

As climate change continues to change the world that we live in, [sustainability](#) is top of mind for organizations. Many companies (26 percent) are now using analytics for optimizing logistics to reduce overall emissions, and 22 percent are minimizing waste through analytics-powered waste management processes. Analytics is key to building winning initiatives like those aforementioned, with most using data and analytics for scenario modeling and diagnosis of areas in which to improve environmental impact. Such initiatives have helped realize a 42 percent and 32 percent reduction, on average, in waste or emissions for mature (Leaders and Explorers) and less mature (Followers and Laggards) respectively (see figure 7).

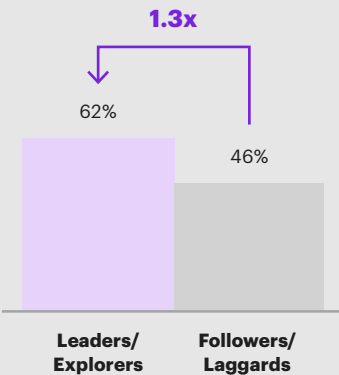
The vast majority of mature (Leaders and Explorers) participants (62 percent) have used analytics when it comes to evaluating environmental sustainability efforts. This is in stark contrast to the less mature (Followers and Laggards) (46 percent), showing that environmental sustainability and its evaluation are spaces where they can improve in their analytics journey.

# As climate change continues to change the world that we live in, sustainability is top of mind for organizations.

Figure 7

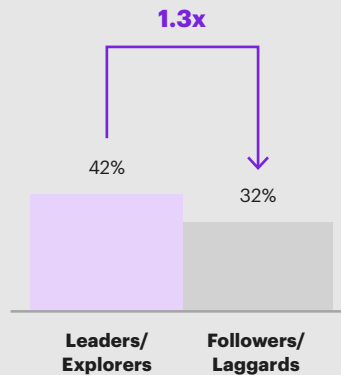
**Mature companies tend to invest more in environmental impact analytics initiatives and are seeing commensurate results**

Used analytics to conduct environmental impact initiatives  
(As % of participants)



**More mature companies** are using analytics to drive environmental impact initiatives...

Reduction in waste/emissions driven by analytics  
(% reduction in waste/emissions)



... and are seeing **1.3x greater** waste/emissions reduction compared to others.

Sources: Melbourne Business School; Kearney analysis

## Social responsibility

In recent years, there has been a rapid rise in the importance of human resource management within corporate strategies. Generally, companies that value diversity, equity, and inclusion (DEI) tend to have employees that are more engaged, have increased job satisfaction, and have higher levels of trust in the company. But it's not just about the employees—[studies](#) have shown that teams are 2.6 times more likely to understand target customers when they have at least one member who represents at least one of their target's demographics.

Another aspect of social responsibility on the rise is supply chain transparency. As an example, the rise of fast fashion has given light to modern slavery and unethical practices in the global textile industry—where cheap clothes are profitable due to the ultra-low costs of manufacturing. Leading brands such as Nike, Adidas, and Apple have been [linked](#) to modern slavery practices, exhibiting that this issue is still existent today.

Enter blockchain. Blockchain is a system of recording information in a way that makes it difficult or impossible to change, hack, or cheat the system. Blockchain has emerged as a way to address and enhance supply chain transparency through the enabling of smart contracts and transparent financial transactions. Fifty-eight percent of Leaders have a strong understanding of blockchain and how to operationalize it, and 53 percent use it to track financial transactions. Ultimately, the biggest barrier to using blockchain and similar analytics to address supply chain transparency is a lack of systems or processes in place.

The study reaffirmed that how companies define and measure social initiatives is unclear and inconsistent. When our respondents answered the question on what percentage of their revenue was invested in social initiatives, the answer varied wildly—between 1 and 30 percent. This points to an opportunity to improve the definition and drive consistency in how it is measured. Once this is done, the linkage back to analytics and the value it drives will become clearer and will make for improved decision-making in this domain.

**When our respondents answered the question on what percentage of their revenue was invested in social initiatives, the answer varied wildly.**

## Governance and reporting

Adjacent to the TBL is corporate governance—inclusive of reporting and issue resolution. There has been a sharp increase of scrutiny around corporate governance with regard to unethical conduct and social irresponsibility. Kearney recently conducted a [study](#) that shows that there has been a 27 percent increase in involuntary CEO departures over the past 10 years (across two five-year periods). This has been driven by non-financial factors, with such involuntary CEO departures increasing about five times in the same time frame.

Analytics has a key role in ensuring governance within the organization. Predictive and prescriptive analytics have proven integral in issue prevention and resolution across all departments. There are three dimensions of governance which organizations look to influence through analytics, the first focused on efficiency and the others on effectiveness (see figure 8):

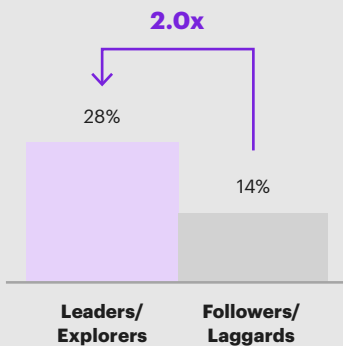
1. Automating review of ESG metrics
2. Improving risk management effectiveness
3. Minimizing crucial concerns around governance

About 50 percent of all respondents are not using analytics, which provides for significant room for improvement. However, more mature organizations apply analytics across both efficiency and effectiveness, while Followers and Laggards are initially focused on using analytics to improve governance effectiveness.

Figure 8

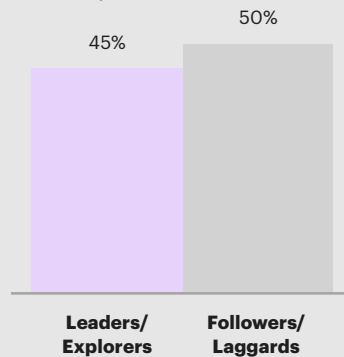
### More mature companies are using analytics to improve both governance efficiency and effectiveness

Used analytics to automate review of ESG metrics  
(As % of participants who responded)



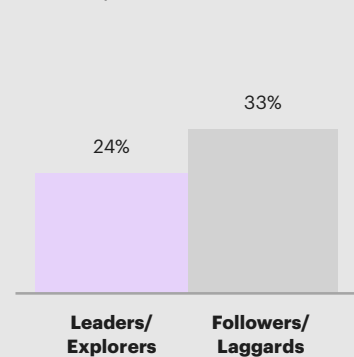
More mature companies are using analytics to efficiently monitor ESG metrics ...

Used analytics to improve risk management effectiveness  
(As % of participants who responded)



... however, the focus on risk management effectiveness is similar between the two groups ...

Using analytics to minimize crucial concern areas around governance  
(As % of participants who responded)



... and equally the focus on minimizing concern areas around governance is similar between the two groups.

Sources: Melbourne Business School; Kearney analysis

## The path forward

An organization's journey to becoming an analytics Leader is lengthy and rife with challenges. As quick wins are exhausted early on in an organization's transformation, it is easy to become discouraged by diminishing returns and greater required investments. This year's Analytics Impact Index shows that organizations are still able to realize significant gains through proper and consistent investments in analytics.

Pure capital investment is seldom enough to get you to where you need to be. Executive sponsorship and a long-term vision for analytics is required, especially in developing a culture of data-driven decision-making in your organization. Data infrastructure on its own is not effective without high-quality data. A robust data ecosystem with data management methods and processes can enable high-quality insights, though ultimately, without defined leadership and a robust strategy, investments in data ecosystems go to waste. All of this comes together to drive an organization-wide adoption and appreciation of analytics.

Every industry has undergone digital change over the past decade, with the past two years being particularly transformative with the COVID-19 pandemic. Through the pandemic alone, many companies have been forced to accelerate their digital transformation plans to keep up and maintain effectiveness in a "locked-down" world. They will need to maintain this focus as the world comes out of lockdown too.

The pandemic era has brought to light the importance of social impact, sustainability, and governance beyond the financial bottom line. Increased prevalence in the use of analytics within these TBL elements shows that priorities are shifting because of the pandemic. Social and environmental responsibility are current hot topics which define the future of society.

As the world emerges from the COVID-19 pandemic, it is very apparent which organizations have been able to effectively adapt and evolve digitally through forced lockdowns, remote working, and virtual operations. Through it all, the dependency of data is constant and reassuring, and it is a reminder that to remain relevant, organizations must continue to measure, reflect, and adapt to the ever-changing world around us. As many organizations look to restart their investments, analytics is not something you can afford to overlook.

In summary, the 2021 Analytics Impact Index reveals five key findings:

- Survey participants battled the impact of COVID-19, as the proportion of Leaders and Explorers declined slightly compared to 2020.
- Financial returns are correlated with analytical maturity, with Laggards having the potential to generate 61 percent more profit, on average, if they were to develop to the maturity of Leaders.
- Mature participants use analytics more (1.3 times, as a percentage of participants) to drive environmental impact initiatives and see commensurate results.
- While organizations use analytics to drive social initiatives, **absence of clear linkage between the two is the biggest barrier organizations face.**
- All respondents that **use analytics to improve governance** did so to improve effectiveness but **Leaders/Explorers also focused on efficiency (2 times more likely).**

Analytics is constantly changing. Leaders will need to stay ahead of the game through investments in social and environmental impacts using analytics. As social and environmental responsibility continues to be a hot topic globally, it is apparent that analytics can play a huge role in developing capabilities necessary to drive the triple bottom line. With the addition of analytics used to improve overall reporting and governance, we, as always, find analytics to be at the heart of every growing organization.

The 2021 Analytics Impact Index survey is still open. If you would like to participate and receive a detailed and personalized report, please click [here](#).

# Analytics culture transformation at L'Oréal Australia and New Zealand

L'Oréal Australia and New Zealand (ANZ) has extensively used the Analytics Impact Index (Aii) framework to drive the transformation of its decision culture to become more data driven.

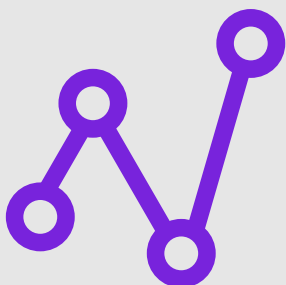
Rodrigo Pizzaro, the CEO, drove the ongoing transformation and was asked about what he saw as the turning point in the journey.

“The arrival of Christelle Young as the chief strategy and analytics officer was a turning point in the analytics transformation. It was important to find someone who had the right analytics skill set, but also someone who could drive cultural change and was a good fit. L'Oréal has a highly creative, marketing-driven culture and it was crucial that leaders pushing the analytics transformation respected, maintained, and even augmented this culture in the transformation. Christelle's title as chief strategy and analytics officer, a C-level executive reporting directly to the CEO, was an important signal to employees of how seriously L'Oréal was taking its analytics transformation. Putting strategy under her also ensured that analytics was deeply embedded in business operations and future plans, instead of being sidelined.”

Christelle Young has led the transformation since being appointed to her role in late 2020. She was interviewed for this case study.

## What is the history of analytics at L'Oréal Australia?

- The analytics journey at L'Oréal Australia began at the top, with the CEO identifying a need for a cultural change in the way data is used and how data supports business operations.
- L'Oréal had a strong business intelligence (BI) infrastructure, but the data ecosystem was not set up to support advanced analytics. One initial hurdle was to begin the transformation showing value through use cases before investing in infrastructure.



## How does L'Oréal envision its analytics capabilities progressing in the upcoming years?

- The analytics team is looking to solidify and scale its solutions to achieve even greater value. At the same time, we are mindful of challenges ahead. For example, any failures can create reluctance and skepticism from stakeholders, which can be difficult to recover from even after successful projects have again demonstrated value. Furthermore, the data ecosystem is not mature yet, which means that significant time is spent on bringing together, cleaning, and validating data. The business is in the process of transforming its data ecosystem to Google Cloud Platform in an attempt to alleviate these issues.

## How has L'Oréal used the Aii framework and results to understand and progress their analytics maturity?

- L'Oréal uses the insights generated by the Aii in almost every aspect of our analytics journey, but particularly in creating and embedding an analytics culture throughout the organization. From initial formation of the team to using use cases for the development of the team, the Aii has helped guide the analytics change. The demonstrated success of analytics projects—as well as continued training—is helping to highlight to employees the value that analytics can bring to them.
- An example of how L'Oréal has used insights out of the Aii is by identifying a need to advance analytics capability training across the organization. The “Advancing Value through Analytics (AVA) Academy” was designed to address this need, with the aim to encourage data-driven decision-making and an experimental mindset. The initiative supports three different types of learners with varying needs, from the employee who is keen to learn the basics to the expert looking to advance their skills.

## What excites you the most about the potential of analytics and its place within L'Oréal?

- The analytics cultural transformation has overall been widely accepted by the organization. Every day we see more and more people seeing this as a positive change and they are excited to learn more about this area. This has helped the cultural transformation go as smoothly as possible, with new analytics initiatives, in particular “AVA Academy,” being very well received.

## Focus area questions

### How is analytics used to drive environmental sustainability outcomes?

- L'Oréal's initiatives around ESG are built upon the "L'Oréal for the Future" strategy, which focuses on four main pillars: climate change, managing water sustainability, respecting biodiversity, and preserving natural resources. Currently, many initiatives as part of this campaign are in the research and development phase, including packaging and redesigning and innovation of new products. Consumer insights and analytics are used to drive innovations, as well as understand the customers' voice and social media trends. Garnier's green beauty initiatives is an example where analytics is used to understand trends that fit in with the ESG pillars, and then set KPIs and measure progress.

### How is analytics used to drive reduction in overall natural resource consumption?

- L'Oréal is creating an EP&L, similar to Kering's Environmental Profit & Loss (EP&L) framework. Generally, when running a model to evaluate impacts on the bottom line, it will either reduce costs or increase sales, but it is often difficult to understand the impact specifically attributed to sustainability factors. An EP&L enables effective modeling to find the balance between costs and environmental factors.
- For example, L'Oréal currently uses paper packaging. Although this has a significantly greater cost than say bubble wrap, it creates less of an environmental footprint. It is often challenging to model cost-effectiveness and sustainability to reach KPIs. Data plays a big role in understanding drivers, and now L'Oréal can put a dollar value to these initiatives. Therefore, we set targets, as well as create balance between business decisions and sustainability decisions, which is difficult without these key measurements.

*Kierra Flynn, sustainability manager, and Dr Krishna Feron, data and analytics manager, were also interviewed on the use of analytics to drive supply chain transparency and social responsibility outcomes.*

### How does L'Oréal use analytics to enable supply chain transparency?

- CO<sub>2</sub> emissions, net zero, and zero air freight are prevalent things in our area. Air freight is currently one of the biggest issues in Australia, due to our geography, and one of the biggest KPIs that L'Oréal is trying to meet as a sustainability objective. Air freight is not just about the cost, but also about the carbon footprint. L'Oréal uses analytics for creating better supply chain forecasting models, in order to reduce air freight cost and achieve our zero air freight target in coming years.

### How is analytics used to drive corporate social responsibility outcomes including supporting human resource management?

- L'Oréal is currently in a partnership with the Australian government to rewrite policies around modern slavery. Analytics can help evaluate whether we're moving the needle in the right direction and if we're making a tangible, positive impact; however, this is not expected to be an easy task as quantifying the impact is not very simple.
- A major focus for these initiatives is uncovering how they are affecting the community or the company. Currently, L'Oréal is at the initial stages of gathering the relevant data to answer these questions, which are difficult to answer analytically without context.
- The impact of proud initiatives can be measured through a "net promoter score" or "social buzz score" to understand the sentiment around the initiatives that L'Oréal runs.





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Melbourne Business School has a proud history of advancing quality business education in Australia. The school is home to Australia's first MBA program, launched in 1963. The Centre for Business Analytics was founded by Melbourne Business School in 2014 to address the worldwide demand for analytics research and knowledge. Its mission is to be a key catalyst to help Australian businesses gain a distinctive competitive advantage through harnessing the trilingual insights of business, mathematics and technology. The Centre manages educational programs including Melbourne Business School's Master of Business Analytics, which is ranked 15th in the world by QS and recognised as the top program in Asia and Oceania. The Centre's partners include Suncorp, Nikpol, NAB, Downer, ANZ, Melbourne Water, AustralianSuper, Deloitte, EY, Tanarra Capital, Victorian State Government, L'Oréal Australia, PACCAR Australia, Department of Jobs, Precincts and Regions, and Bupa. To learn more about the Centre for Business Analytics, please visit [cfba.mbs.edu](https://cfba.mbs.edu).

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