Herbalife supplements its business control with a collaborative compliance management solution.

Overview

- **Challenge**
  Herbalife had to certify compliance with the Sarbanes-Oxley (SOX) Act within a very short timeframe, but lacked the system and process framework required to achieve this.

- **Why Become an On Demand Business?**
  Herbalife needed a highly flexible framework to manage SOX compliance—one that would provide a secure, collaborative platform for addressing compliance issues fast.

- **Solution**
  Herbalife engaged IBM to develop a secure, portal-based solution for compliance—combining IBM Workplace for Business Controls & Reporting with native workflow, content management and security services to streamline compliance processes.

- **Key Benefits**
  - Expected 20% reduction in total cost of SOX compliance
  - Improved decision support through more transparent view of processes, controls and costs

>> On Demand Business defined

"An enterprise whose business processes—integrated end-to-end across the company and with key partners, suppliers and customers—can respond with speed to any customer demand, market opportunity or external threat."

Headquartered in Los Angeles, Herbalife International is a global network marketing company that sells weight management, nutritional supplement and personal-care products. The company conducts business in 60 countries through more than one million independent distributors. Herbalife's annual net sales totalled US$1.3 billion in 2004.

Since its founding in 1980, Herbalife (www.herbalife.com) has evolved from one man's vision of a healthy lifestyle to a $1.3 billion provider of weight management, nutritional supplement and personal care products operating in 60 countries. In addition to the popularity of its products, much of Herbalife's success can be traced to how effectively it has linked these products to the broader benefits of a healthy lifestyle, a philosophy reflected in the company's stated vision of "changing people's lives." But what may really set Herbalife apart is the approach it takes to get this message—and its products—out to independent distributors. The core of Herbalife's business strategy is a reliance

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– Paul Marlowe, SVP, Internal Audit, Herbalife

On Demand Business Benefits

- Expected 20% reduction in total cost of SOX compliance

- Reduced auditing expenses

- Improved efficiency and productivity related to SOX compliance

- Overall increased responsiveness to new compliance requirements

- Lower global training costs based on ease of use

- Improved decision support through more transparent view of processes, controls and costs

- Improved ability to identify and manage risk within the company

on a "network marketing" distribution model, under which more than one million independent distributors operate.

One of the company's most significant changes in recent years—and in many ways a symbol of its success—was its transition from private to public ownership. While this change had little or no impact on its core business, the company nonetheless became subject to more stringent reporting requirements, most of which emanate from the Sarbanes-Oxley (SOX) Act. Under Section 404 of SOX, Herbalife's management needed the ability to efficiently assess—and attest to—the effectiveness of the company's roughly 3,000 internal controls governing 500 business sub-processes. What does this entail? Think of a tree diagram, with the business units at the top, business processes below that, and business controls feeding into them. At a generic level, control certification requires the manager who "owns" the business process (for instance, accurately recording a sales transaction) to examine the control to ensure that it measures up. The question, in other words, is whether the prescribed tasks designed to achieve the process goal are adequate. For a control to be fully certified, though, requires a cascade of accountability and sign-off up the hierarchy—from the control owner, to the process owner, to business unit manager, all the way up to the CFO and CEO. Getting to this point requires an efficient means of exchanging process- and control-related information and collaborating toward problem resolution.

The road to SOX compliance

Like most companies facing the strict new reporting requirements introduced by Sarbanes Oxley, Herbalife had three basic choices. It could either rely on an ad hoc approach, employing a mix of manually updated spreadsheets, text documents and supporting charts that were exchanged via email. It could create its own solution. Or it could procure a packaged offering. Not surprisingly, it chose option three, employing a stop-gap solution developed by its auditor, KPMG. While this tool, known as Compliance Assessment Template (CAT), worked for a time, it soon proved inadequate to the long-term demands of SOX 404. With the timeframe for compliance shortened by its public offering, Herbalife realized it needed a solution that could not only be deployed quickly, but also one that would—over the long haul—be equal to the control challenges that were unique to its business. Foremost among these were the decentralization and complexity of Herbalife's organization, combined with the sheer number of controls and processes. Facing this, the company realized it needed to create a new, highly automated

process framework for certifying its controls, one that was robust and flexible enough to handle its unique requirements, and do so in a matter of months. But it didn't stop there. Instead of framing its business problem in tactical terms (i.e., solely as a SOX issue), Herbalife began to look at it as a strategic opportunity to become more responsive to compliance issues overall, to identify and more proactively manage risk within the enterprise, and to standardize processes across the company. Moreover, Herbalife also began to see SOX as a potential catalyst for even broader transformation—in the way it looked at processes, in the way it managed information and in the way it supported business decisions in the company.

Gaining control through transparency

Herbalife capitalized on this opportunity by engaging IBM to create a turnkey compliance portal whose flexibility, automation and powerful reporting capabilities provides a firm foundation for the company's current and future business control needs. Based on IBM Workplace for Business Controls and Reporting (WBCR) solution, and customized by a diverse team from IBM Business Consulting Services, the compliance portal addresses every level of Herbalife's compliance needs—from its ability to automatically flag compliance problems to the collaboration capability needed to remediate those problems—while also providing the audit trails through the entire process.

Especially beneficial for Herbalife is the solution's ability to support worldwide access with rights based on a flexible, role-based security scheme. By leveraging this attribute of IBM WebSphere® Portal (which is included in the WBCR product) Herbalife's internal control staff can quickly and easily assign and modify accountability down the organizational hierarchy—from high-level business process owners down to the front-line staff responsible for controls—and request a test of one or more specific controls. In the case of failure, control owners can then collaborate with the team in realtime using the instant messaging capabilities integral to the WBCR product to discuss remediation measures. To support this collaboration, the solution stores relevant knowledge assets such as email messages, spreadsheets and contracts in an integrated data repository (running on IBM DB2® Content Manager, also part of WBCR) and provides built-in instant messaging and team workspace capabilities. To pass, or certify, a business control, the control owner selects it via a pull-down menu in the portal and checks the appropriate box. In similar fashion, process owners can review the certification status of their underlying controls and, based on the outcome, can either certify their process or review remediation plans.

In terms of core functionality—business control certification—the efficiency and automation of the new solution far surpasses that of the previous system. But the distinction is even more marked in its ability to support business decisions through advanced reporting capabilities. The key enabler is the flexible, highly integrated data structure underlying the IBM WBCR. After defining Herbalife's organizational

"Automation has improved the way we operate and helps us keep our focus where it needs to be—on our independent distributors."

– Paul Marlowe

hierarchy, control employees can perform advanced analytics to promote business process optimization and standardization across different parts of the company. In accordance with the original intent of SOX—to certify the integrity of financial filings such as 10-Qs and 10-Ks—the product gives control staff and auditors the ability to drill down into specific income statement and balance sheet line items (such as expenses and receivables) and map out the linkages between controls and processes through a single report. This same underlying connectedness also enables Herbalife's senior management to perform an "apples to apples" comparison of the controls within a particular process and across different business units or regions. With advanced reporting capabilities making data more transparent, Herbalife managers can now examine their cost drivers and processes more granularly, and know where their optimization efforts would be best directed.

While the compliance portal solution supported Herbalife's most immediate need—timely compliance with SOX 404—the full picture of the solution's value will unfold over time as the company navigates its ever-changing regulatory and business environments. Having established a flexible, comprehensive solution, the company can now respond more nimbly to emerging compliance requirements on the strength of more efficient, integrated processes. These same attributes are also expected to directly boost the bottom line by reducing its total cost of compliance by more than 20 percent over the next few years. This reflects both direct cost factors—ranging from reduced auditing expenses to lower training costs—and the far-ranging efficiency improvements as employees at all levels spend less time on compliance-related activities. While impossible to quantify, the solution also provides Herbalife with a foundation for identifying and more proactively managing risk across its far-flung operations. Paul Marlowe, Herbalife's SVP, Internal Audit and the project's main sponsor, sees the compliance portal solution helping the company minimize the impact of compliance issues and keeping its focus on growing the business. "IBM not only helped us minimize the impact of SOX compliance, but in the process also gave us the means to better understand our business, make better decisions and—ultimately—compete more effectively."

For more information

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