

Global Sustainability Summit

UNCOVER THE POSSIBILITIES



**Leading European CPG and
Retail Companies Harvest the
Profits of Their Sustainability
Efforts**



GMA Sustainability Summit 2013

Sustainability at Leading European CPG and Retail companies

Conference presentation
August 15, 2013

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US grocery manufactures can benefit from best-practice sharing with European sustainability leaders

Context

- CPG and retail companies face **sustainability challenges along the value chain** – from sourcing to consumer use and recycling
- Addressing those challenges **in some cases leads to cost reduction, but in the majority of cases generates additional cost** at company level
- It is **difficult to sell sustainable products at a price premium** except in niche markets – so far **only a few truly sustainable products have achieved breakthroughs** in the mainstream market
- However, several companies have managed to expand their market share by adding **singular sustainability features** to their conventional products at no or marginal extra cost
- These sustainability features help to **differentiate at the point of sale**
- Leading European food companies can provide some guidance to GMA/FMI members on proven **sustainability best practices** along the entire food value chain

Today's agenda

- Framing the sustainability challenge
- Sustainability: An exciting opportunity for the food industry
- Sustainability best-practices for the food industry

Framing the Sustainability Challenge

Effective sustainability management is three-pronged - economic, social, and ecological

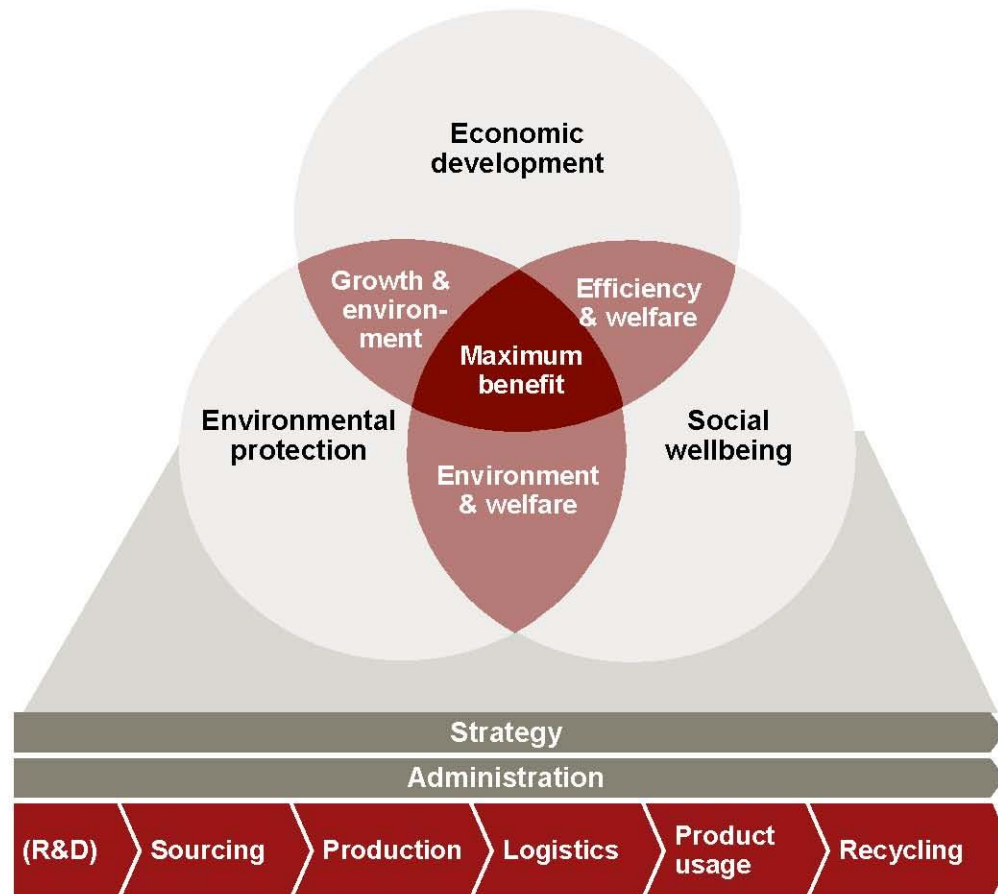
Sustainability Management

Economic sustainability		Social sustainability		Ecological sustainability	
	Value creation		Health and safety		Nature protection
	Sustainability monitoring and steering		Fair payment, work-life balance		Climate protection
	Compliance and ethical conduct		Diversity		Resource protection and recycling
	Economic development, bottom of the pyramid		Education and training		Water management and conservation
			Human rights and indigenous peoples		Land use
			Society development		

The prioritization of topics varies depending on the industry. For the food industry, water management and land use are particularly relevant

Striking the right balance between the three dimensions is key

A.T. Kearney Sustainability Framework



- **Balancing** economic, social and environmental dimensions
- Shifting business model to “**maximum benefit**” area
- Optimizing all three dimensions **across** the whole **value chain**
- Alignment of **strategy and operations**
- Focus on **core business** instead of marketing and communication

Our work with the German Sustainability Award provides a unique vantage to best-practices across industries

German Sustainability Award

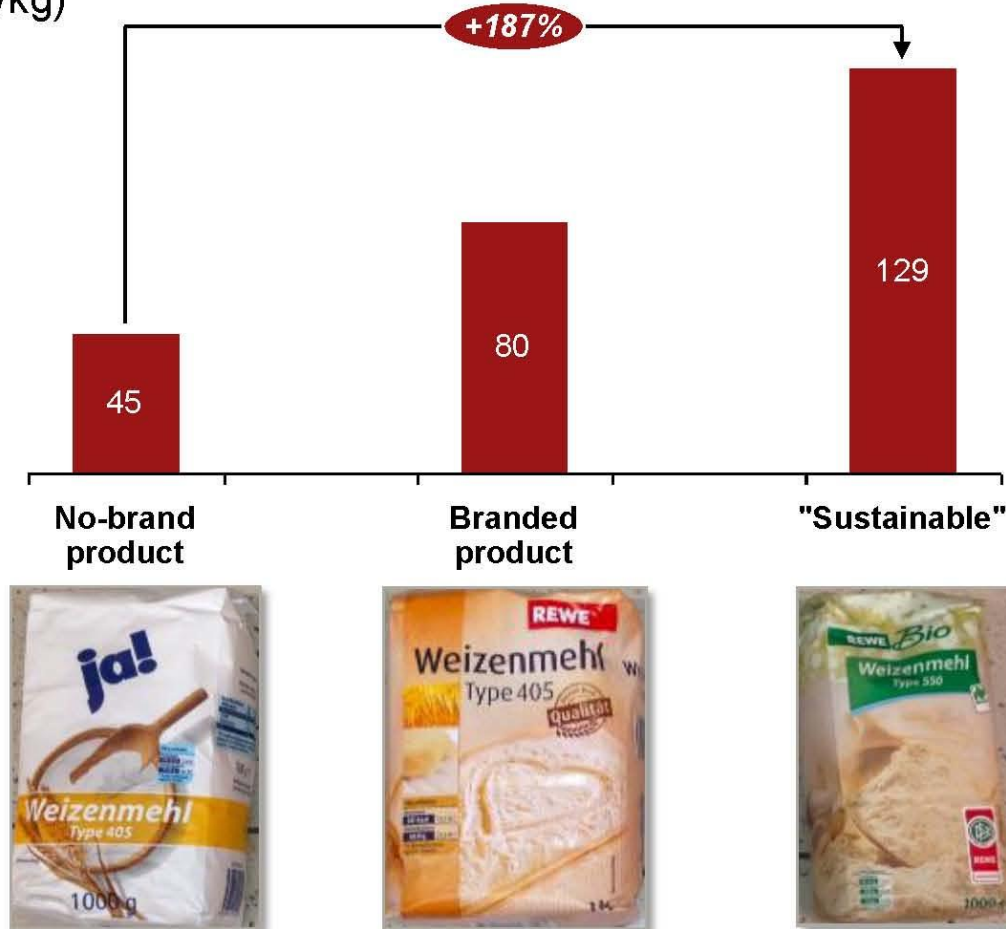
- Initially awarded in 2008, most important **social event** in Germany's sustainability community
- For the last 6 years, we have been the **methodology partner** for the award, designing and advancing the underlying approach to sustainable management
- Having evaluated over 1.200 company applications since 2008, 100+ thereof from the food industry, we gained **unparalleled insights in sustainability best-practices**



Sustainability: An exciting opportunity for the food industry

100% sustainable products are currently priced as high-end niche products

Example price comparison of flour (€cent/kg)

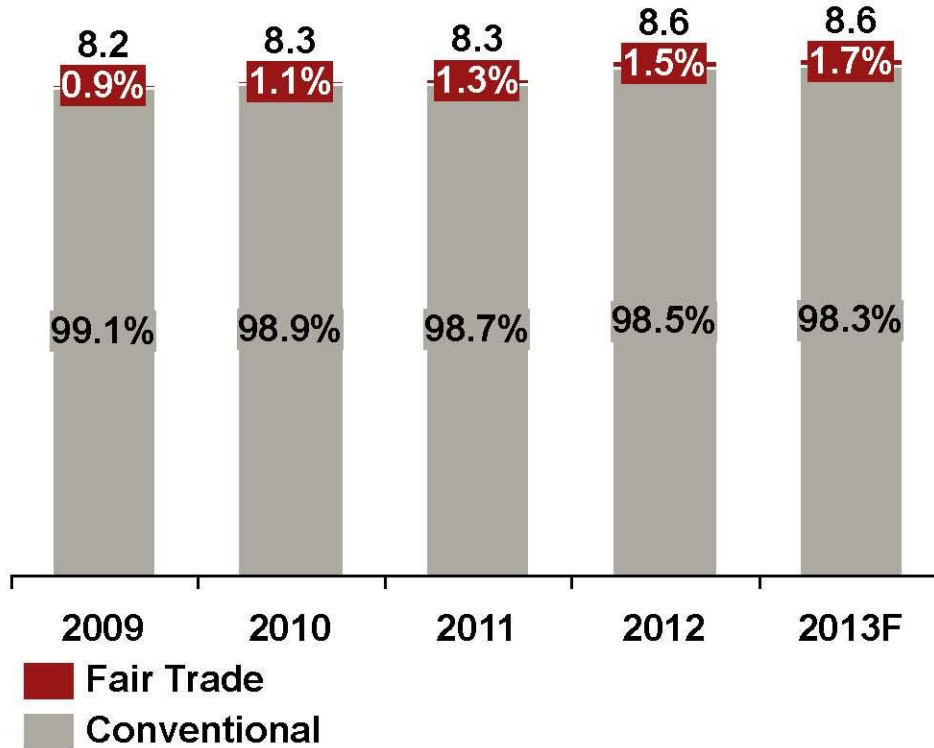


- Sustainability focus currently **“organic”** or **“fair”**
- Price premiums **100 - 200 %** over no-brand products
- **Lack of scale** and **many mark-ups** along the value chain
- Only **few exceptions**

So far, sustainable products are primarily successful in niche markets ... but are not game changer for the broad market

Example: Fair Trade share in coffee market

In million tons¹⁾ and %



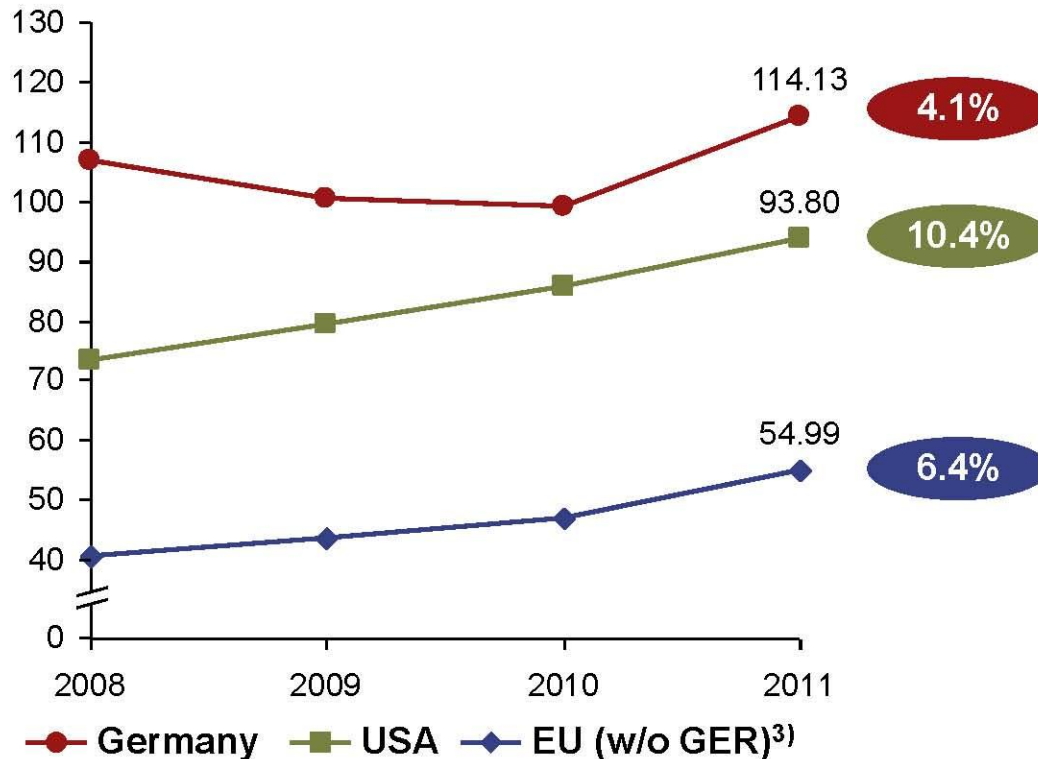
- “Fair” has grown successfully in a niche
- But even after 20 years **still no significant market share**
- Only **limited to few crops**
- **Focused on growers** - no true value chain perspective so far

They meet the demand of a rather small group of “LOHAS”

Demand for organic food

Annual spending for organic food
(US\$¹⁾, per capita)






CAGR
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- LOHAS: “Lifestyle of health and sustainability”
- Average spending for organic food is **less than US\$0.30 /day**
- Share of total retail sales **below 5%**
- Trend towards organic food mainly **consumer-driven**²⁾

CPG and retail companies face multiple sustainability challenges along the entire value chain

Sustainability challenges along CPG value chain

		Sourcing	Production	Transport/ Distribution	Wholesale & Retail	Consumer Use	Recycling
Ecological	 CO ₂	X	X	X	X	X	X
	 Water	X	X				X
	Other	Biodiversity	Food losses	Land use	Land use	Disposal	
Social	 Health	X	X			X	X
	 Income	X	X	X	X	X	X
	Other	(Food) losses			(Food) Wastage		-
Economical	 Economy	Continuity of access	De-coupling growth from resource use	Fuel cost	Competition Marketing spend	Affordability	Depreciation of existing assets

Initiatives across the value chain have been started to address these challenges, but are not collectively exhaustive

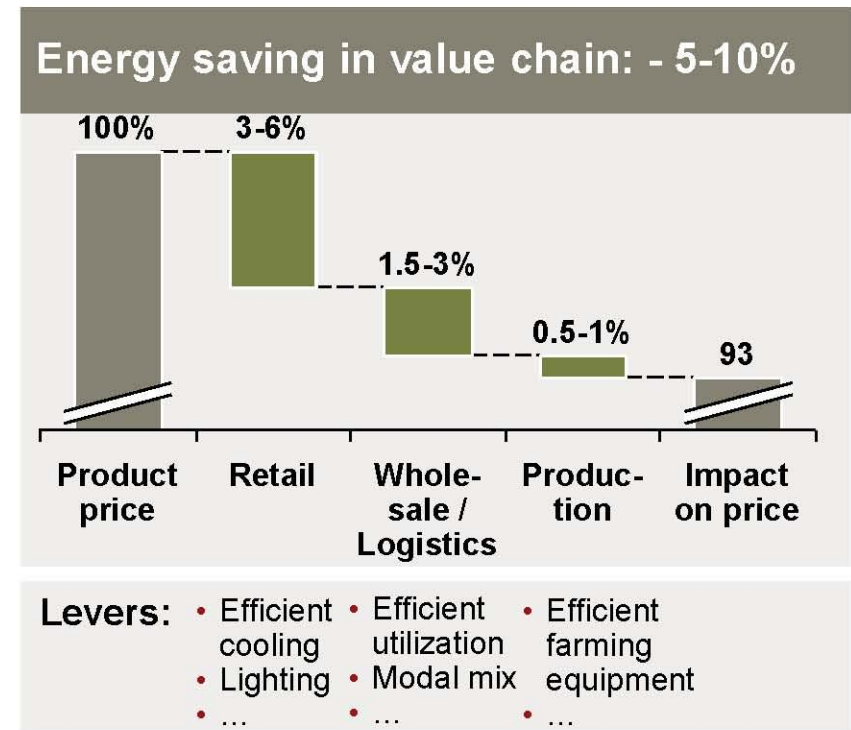
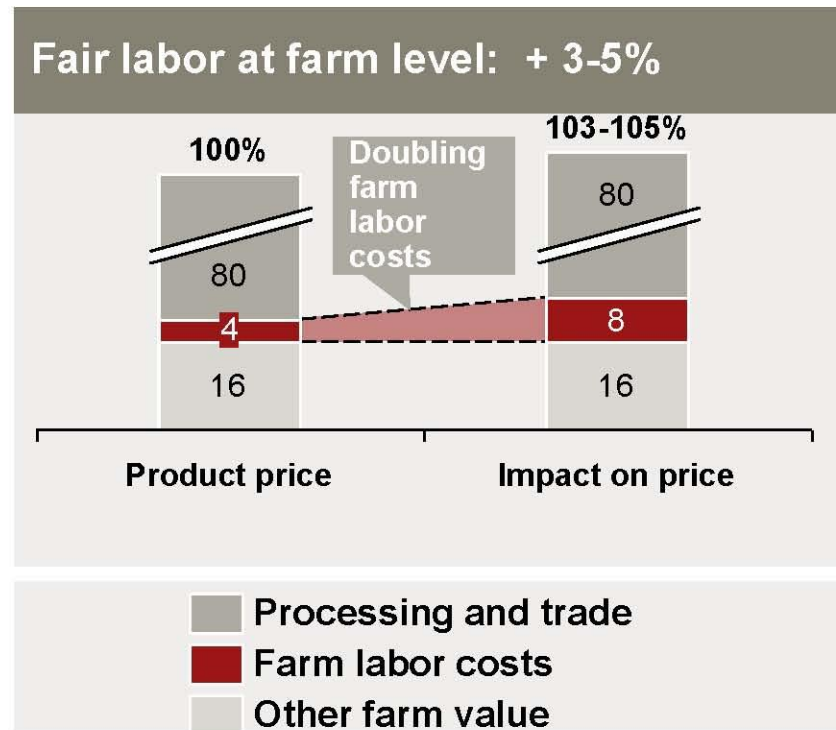
Selected sustainability initiatives along CPG value chain



Improving sustainability in the social arena is costly, while CO₂ reductions often imply cost savings

Effect of sustainability levers on product prices

Based on representative cost structure



Lever with highest impact would be reducing food losses and wastage

Various “sustainability labels” have become a “must”

Sustainability labels – industry standards

Examples

Nutritional facts labels



- Increased transparency
- Consumers make informed choices
- Social dimension of sustainability
- Broadly accepted standard

Ein Riegel enthält (18.5g) / Eén reep bevat (18.5g)						Durchschn. Richtwerte für einen Erwachsenen Gemiddelde DVR voor een volwassene
Kalorien Energie	Zucker Suikers	Fett Vet	Gesättigt Verzadigd Vet	Natrium		
93kcal	7.8g	4.5g	2.1g	0.05g		2000kcal
5%	9%	6%	11%	2%		50g
						270g
						90g
						70g
						20g
						25g
						2.4g
						600

*Des Richtwertes für die Tageszufuhr
für einen Erwachsenen
*Op basis van de Dagelijkse Voedingsrichtlijn
voor een Volwassene (DVR)

Wir empfehlen einen aktiven Lebensstil und eine
ausgewogene Ernährung
We stimuleren een actieve levensstijl en een gebalanceerd dieet

Environmental labels



- Highlight environmental impact and qualities of products
- Example: Marine Stewardship Council
 - >70% of fish species fully exploited, depleted or recover from depletion
 - Consumers, retailers and traders encourage responsible fisheries



Little potential to differentiate products and derive a competitive advantage

Additional sustainability features are used by companies to successfully differentiate their products at the point of sale

Additional sustainability features – potential differentiators

Examples

Additional sustainability “features”



- Fair trade:
 - Maintain well-being of workers
 - Use certified material from sourcing to the consumer



- Organic:
 - No prohibited chemicals, GMO¹⁾ and sewage sludge
 - Free of synthetic chemicals



- Carbon footprint :
 - Carbon emissions of net zero through carbon reduction and offsetting



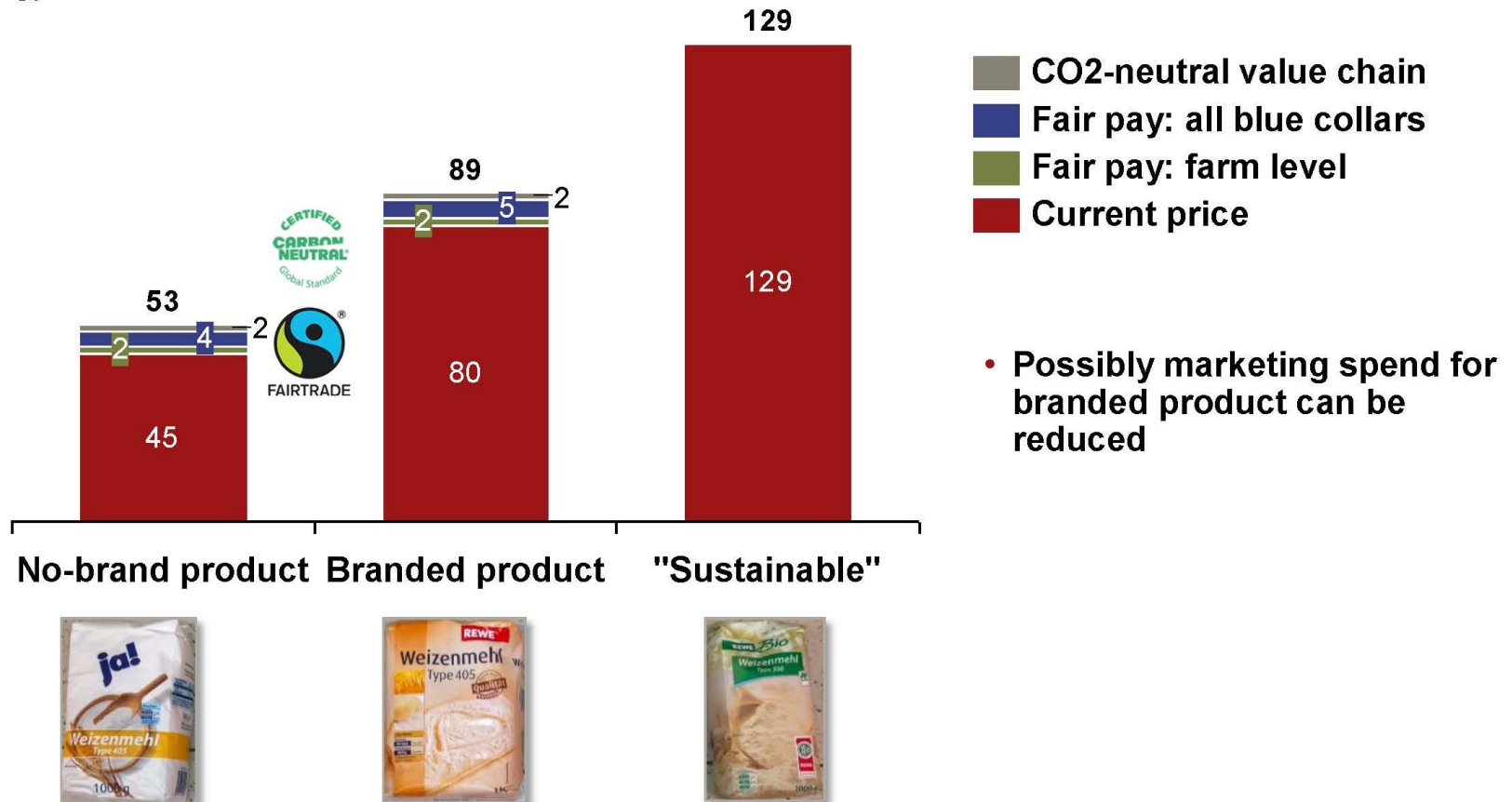
- Company specific:
 - 50 years of Bio-experience
 - More than 260 controls per glass



1) GMO = Genetically Modified Organism
Source: A.T. Kearney

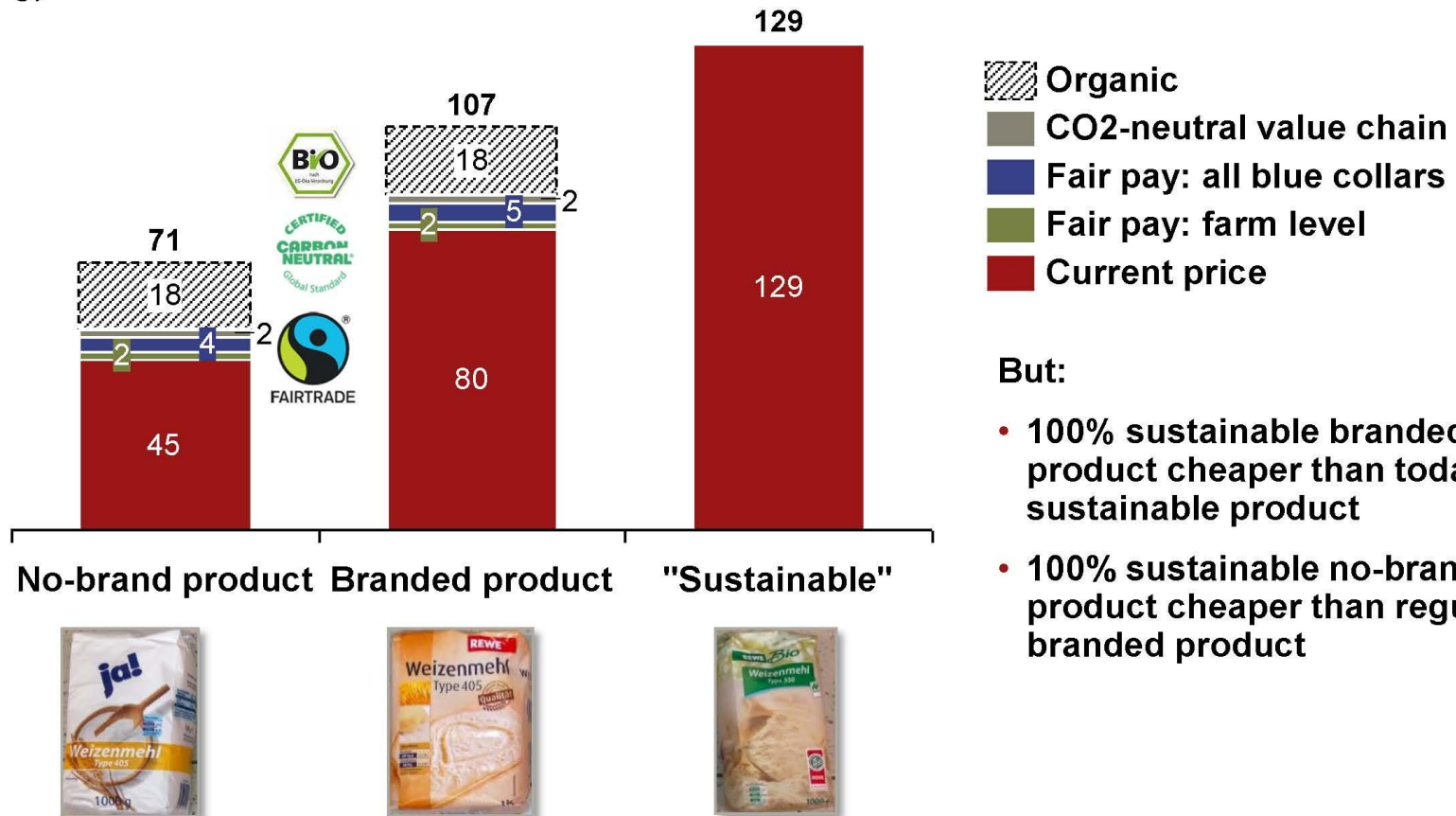
At marginal cost, sustainability features can create real differentiation at the point of sale

Example: additional cost for flour
(€cent/kg)



The cost for going organic is higher – but still within a reasonable range

Example: additional cost for flour
(€cent/kg)



But:

- 100% sustainable branded product cheaper than today's sustainable product
- 100% sustainable no-brand product cheaper than regular branded product

Sustainability best-practices for the food industry

Manufacturers ensure availability of sustainable ingredients by controlling and actively developing agro producers

Best practices agro production



Leading producer of natural and artificial flavors

- Securing **sustainable production** of high-quality Vanilla in Madagascar
- Decent **living conditions** for local producers to counter migration to urban centers
(e.g. “rice credit”, health insurance, investments in local education system)
- Process to identify root causes of and develop **measures against decrease of production**
- Close **collaboration** with the local **civil society** and **NGOs**
- Pro-active communication of efforts

Leading food processing companies use sustainable raw ingredients and minimize environmental impact of production

Best practices food processing



Leading producer of baby food in Germany, global leader in organic baby food

- **Zero-carbon production** in lead plant (>80% of energy from renewables, off-setting)
- **Closed-loop recycling** (e.g. energy generation from almost 100% of waste)
- **Vertical integration of suppliers** to ensure high-quality raw ingredients
- Long tradition
- Pro-active differentiation through labels at the point of sale

Wholesalers use their buying power to further push sustainable production and empower small and local producers

Best practices wholesale and distribution



Mid-sized logistics group

- Development of **multi-modal transport system** for pallets, move of 15% of transport volume to rail
- Increasing role of **employees in decision making** – increased flexibility and employee satisfaction
- Development of “**Logistics cockpit**” for sustainable management and cost-evaluation of internal logistics processes
- Communication of achievements to business partners

Retailers facilitate sustainability by developing suppliers and by optimizing their own footprint

Best practices retail



Leading German retailer

- Large assortment of **products with one or more sustainability features** (e.g. Fair Milk)
- Own product group “**Pro Planet**” supporting ecological sustainability
- “**Best alliance**”: Ensuring sustainability of Spanish early strawberry by a bundle of measures including **backward integration**, **circumventing of spot markets** and including standards on biodiversity, resource protection and labor into contracts with selected farmers, lighthouse project

Take-home recommendation: build “sustainability” into your products where it gives you a competitive advantage

1. Do **not aim for 100% sustainable** products – this niche is filled
2. Pick the **low-hanging fruits** and realize cost savings from sustainability
3. Check for the “**must haves**” in sustainability of your products to ensure you do not fall behind competition
4. “**Upgrade**” your existing products - identify sustainability features that give them an edge over competition at the point of sale
5. Check for large-scale, bold moves and leadership in **initiatives across the value chain** to truly improve eco-social conditions **at marginal costs**

Please feel free to reach out to us in case you would like to discuss further!

Your presenters today



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