

THE FOOD AND BEVERAGE INDUSTRY:

Advancing

ON THE PATH TO
PRODUCT SUSTAINABILITY

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report



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INSIGHT

THE FOOD AND BEVERAGE INDUSTRY: Advancing on the Path to Product Sustainability

Product sustainability efforts within the food and beverage industry are gaining momentum and maturity, delivering increasing value to companies. This report will help you learn:

- *How to maximize business value to keep pace with your competitors' rapid progress in product sustainability.*
- *Steps for building strong corporate alignment and bringing product sustainability into the core of the business.*
- *Where companies in the food and beverage sector plan on focusing their product sustainability efforts in the coming years to address emerging issues.*

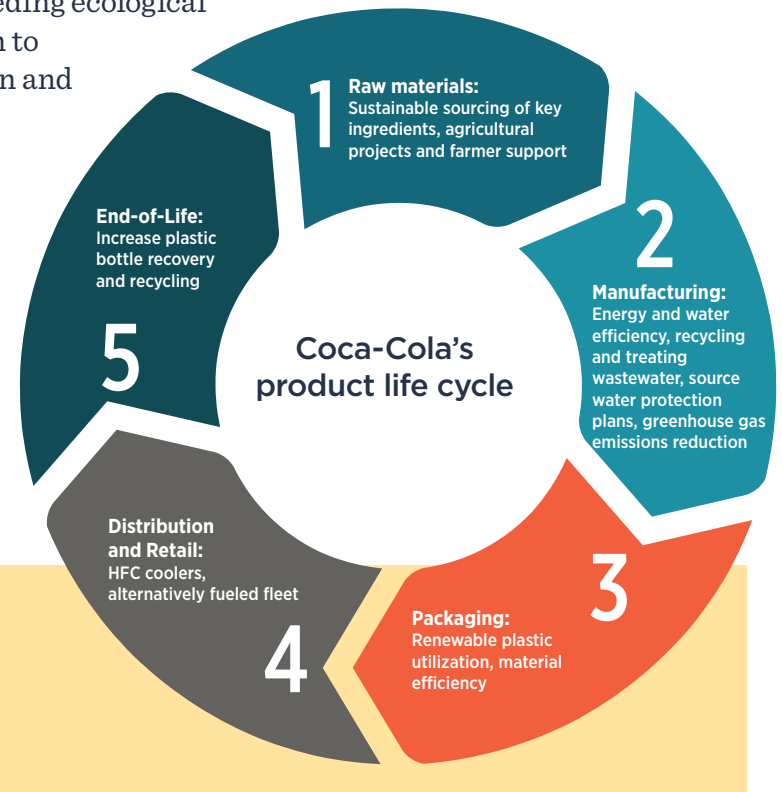
The Food and Beverage Industry: Advancing on the Path to Product Sustainability

With a global population expected to exceed 9 billion by midcentury, the food and beverage industry faces the unique challenge of meeting human nutritional needs without exceeding ecological and social limits. The solutions range from product and packaging innovation to substantial manufacturing efficiencies and significant supply chain activation and collaboration.

Product sustainability advances such as these are beginning to take shape in leading companies, but many more firms need to adopt the best practices.

In this report, we outline the status of product sustainability in the food and beverage industry and identify successful approaches from top-performing programs to help more companies transform their businesses and gain value from their efforts.

Product sustainability encompasses initiatives that measure, improve, and disclose the environmental and social impacts of products across their life cycle stages.



The Coca-Cola Company engages in product sustainability through several initiatives, such as those shown here.

FIGURE 1 Percentage of food and beverage companies surveyed with product sustainability goals.

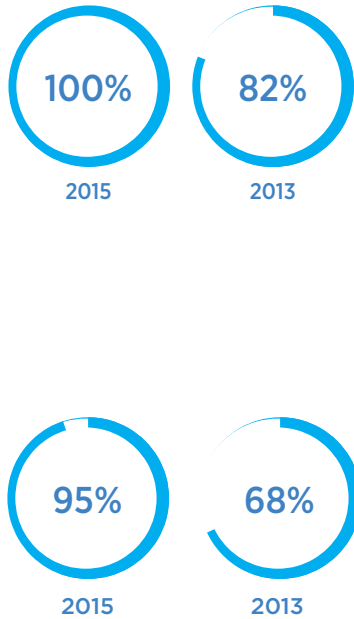


FIGURE 2 Of the food and beverage companies engaged in product sustainability, 95% (up from 68% in 2013) have moved beyond just exploring what product sustainability means and are evaluating sustainability and/or integrating sustainability into products.

Food and Beverage Companies are Advancing

In this second Pure Strategies study on product sustainability programs, we surveyed 57 food and beverage companies involved in product sustainability, confirming that more firms are developing sophisticated product sustainability approaches, getting past just exploring what product sustainability means to their organization. We saw an increase in the number of companies with goals and advanced sustainability programs with strong alignment and business integration (*Figure 2 & 2*).

This increased activity has generated significant business benefits. More food and beverage companies have achieved value through risk reduction, productivity, and growth opportunities (*Figure 3*). Employee engagement tops the list of benefits reported, driving productivity through improved retention, enhanced recruitment, and efficiency gains of up to 13%.ⁱ

How Businesses Benefit from Product Sustainability Efforts



Despite these gains, there is room for improvement. Companies that are earning the greatest business value, which we refer to as performers, have strong corporate alignment and integrate sustainability into the core of their business (*Figure 4*). Food and beverage companies are among the ranks of these leading firms, demonstrating the potential across the sector of earning more from product sustainability programs.

“Our company’s product environmental programs are delivering efficiencies from the farm through to logistics, reducing risk and improving resilience for the farmer and our company.”

John Rogers, Global Director of Agricultural Development, Anheuser-Busch InBev

ⁱ IO Sustainability, 2015. *Project ROI: Defining the competitive and financial advantages of corporate responsibility and sustainability.*

The Blueprint for Success

Corporate Alignment

A successful program begins with effective corporate alignment that has leadership engagement and structured goals.

Leadership Engagement

Executive support with active involvement and accountability advances product sustainability programs across the company. Food and beverage companies involved in product sustainability have been excelling in this area.

Unilever’s executive team is involved in determining and tracking priorities to drive sustainable growth. The company reinforces this role by linking progress on sustainable business goals to compensation and incentives for company leadership including the CEO and several members of the Unilever Leadership Executive Team.

83% of food and beverage companies have a high or very high level of product sustainability integration with executives and administration.

Ensure the Executive Team and other leadership supports the effort, is accountable with goals, and visibly participates in the program.

“At Nestlé, Creating Shared Value is the way we do business and it is embedded in our holistic management thinking. Integrating business opportunity and societal need is what we expect of our leaders and employees.”

Nestle Chairman of the Board Peter Brabeck-Letmathe & Chief Executive Officer Paul Bulcke

FIGURE 3 Percentage of food and beverage companies reporting having achieved the following benefits.

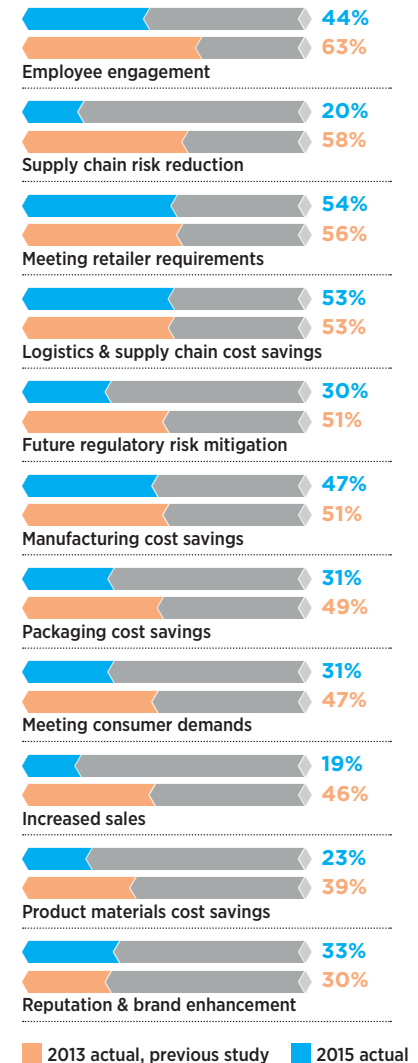


FIGURE 4 The top benefits achieved by food and beverage companies.

Percentage of food and beverage companies and performing companies reporting having achieved benefits from their product sustainability program.

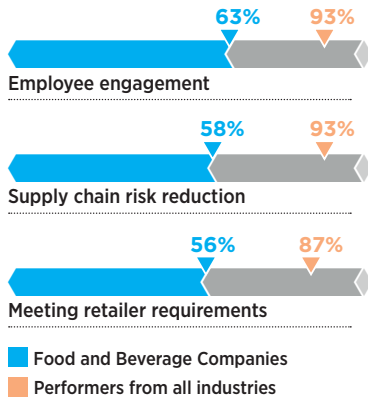


FIGURE 5

How do food and beverage companies identify their priorities?

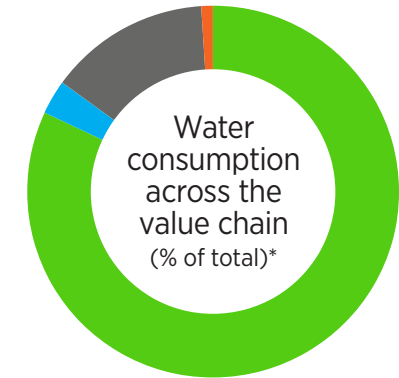
Understanding the key issues across the product supply chain, from farm to fork, is critical in setting the right goals to advance sustainability and gain business value from the company's efforts.

To determine their priorities, businesses typically conduct a materiality assessment, life cycle assessment for key products, and/or additional impact evaluation (e.g., water risk, supply chain risk).

What have others found?

A large portion of a food and beverage company's impact typically falls in raw material production, thus sustainable agriculture is often an important area of focus for firms. There are additional opportunities across the supply chain. For more information, see the book *The 10 Principles of Food Industry Sustainability*.

GENERAL MILLS: WATER CONSUMPTION

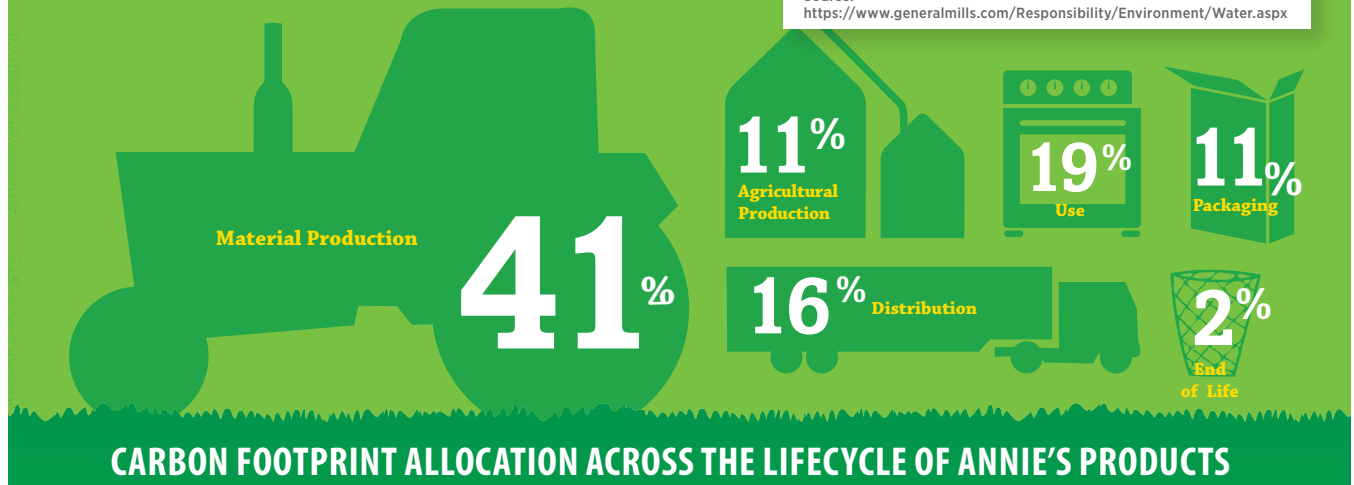


■ Agriculture (82%) ■ Packaging supply chain (14%)
■ Transforming (3%) ■ Converting (1%)

* Based on analysis completed by Trucost in September 2012. Water consumption in Shipping, Selling, and Consuming was considered to be immaterial.

Source: <https://www.generalmills.com/Responsibility/Environment/Water.aspx>

Source: <http://purestrategies.com/case-study/annies-inc>



CARBON FOOTPRINT ALLOCATION ACROSS THE LIFECYCLE OF ANNIE'S PRODUCTS

Structured Goals

Clear goals organize and drive organizational efforts in product sustainability. The Coca-Cola Company's aspiration, for example, involves "protecting the environment" by focusing on four areas: water, packaging, climate protection, and sustainable agriculture. These priorities address the top issues across the company's value chain. Other leading food and beverage companies have similar focus areas (Figure 5). Top performers understand that it is critical to identify where their notable impacts occur to effectively set goals that address risks and seize opportunities.

Food and beverage companies have employed issue-focused goals (e.g., % energy efficiency, % greenhouse gas reduction) that are technical in nature and can be hard for the entire company to participate in. For example, a focus on energy efficiency may engage facilities and manufacturing personnel, but fail to engage marketing, sales, procurement, and other parts of the organization.

FIGURE 6



Coca-Cola's protecting the environment priorities include business-relevant goals and

specific targets. Sustainable agriculture, for example, includes a goal to sustainably source key agricultural ingredients by 2020, with a list of ingredients to address by:

- Embedding sustainability into ingredient procurement decisions
- Developing and implementing crop-specific programs to enhance the economic well-being of farming communities, improve yields, and protect natural resources across the supply chain
- Building industry-wide collaboration to gain alignment and effect change in the agricultural sector
- Driving change through partnerships

world Protecting the environment



Water

Replenish 100% of water used in our finished products

Improve water efficiency 25% (compared to a 2010 baseline)



Packaging

Reach a 75% recovery rate for the number of bottles and cans equivalent to what we introduce in developed markets

Use PlantBottle™ packaging for all PET plastic bottles (up to 30% plant material)



Climate Protection

Reduce the carbon footprint of the drink in your hand 25% (through our full end-to-end value chain)



Sustainable Agriculture

Sustainably source key agriculture ingredients

Source: <http://assets.coca-colacompany.com/77/4c/2a44a5234a3ca65d449d174a0ded/2013-2014-coca-cola-sustainability-report-pdf.pdf>

MARS

Mars, Inc. has a goal to source 100% sustainable fish in its pet food products by 2020. The company has a multi-pronged strategy to achieve this including:

- Reducing the amount of fish used in pet food products
- Replacing any vulnerable fish sources
- Sourcing from third-party-recommended fisheries

This approach engaged manufacturing, product development, and sourcing to transform the company's pet food portfolio. Many companies limit such issues to procurement solutions. However, Mars addressed their impact and saw several levers they could adjust. The resulting integrated approach in their Asia-Pacific region led to 30% less tuna needed through finding efficiencies, reducing waste, and reformulating with different protein sources, along with purchasing responsibly harvested stocks.

Performing companies overcome these issues by also leveraging aspirations and business-relevant goals (*Figure 6*).

The business-relevant goal is a newer approach for the food and beverage industry. This type of goal links sustainability efforts to revenue, innovation, or the product portfolio. A business-relevant approach served as a turning point for many companies in our research, by bringing cross-functional groups together with a common investment in the outcome. Examples include:

- Nestlé: Assess and optimize the environmental impact of our products.
- Colgate-Palmolive/Hill's pet nutrition: Improve the sustainability profile in our new products and product updates.
- Marks and Spencer: Have at least one Plan A social or environmental quality in all M&S products by 2020.



Leverage structured goals with an aspiration, a business-relevant goal, and issue-based targets with a clear focus on top impacts.

Business Integration

A key feature of the blueprint for successful programs is integrating product sustainability into the business including key processes and performance measurement.

Key Functions

Bringing sustainability to core business functions and processes, such as procurement, manufacturing, and research and development makes it part of day-to-day responsibilities and promotes effective corporate alignment. Unilever has been building sustainability into the company for years and found that 76% of employees agree that their job contributes to the company's sustainability plan and drives sustainable growth. But while there are success stories, this area remains a significant improvement opportunity for the food industry.

Training staff and embedding sustainability into product development has accelerated since 2013 when just one-third of companies involved in product sustainability were focused on sustainability at commercial product development. Now, two-thirds have integrated it into this design stage. Yet, leading firms across all types of industries are further along than food and beverage companies. Furthermore, these leading companies plan on a greater level of integration in the future (*Figure 7*).

Part of the challenge for food and beverage companies is a limited connection between product development and sustainability. This can be addressed by understanding the company's priority issues. For example, packaging is often a focus area with many improvement opportunities that could be highlighted if sustainability were included in the early phases of design.

The steps to bring sustainability to core business functions



Nestlé's product and packaging designers are encouraged to think about sustainability from the very beginning of the development process. This is achieved through a combination of assessment and guidance for staff to help optimize environmental hotspots. The company has developed:

- Guidance on areas of significant impact through Nestlé Sustainability Category Profiles to clarify priorities and performance
- Environmental assessment tools for developers to evaluate their decisions during design

FIGURE 7 Percentage of food and beverage companies, and of performing companies, with a high or very high level of sustainability integration in the product development process.

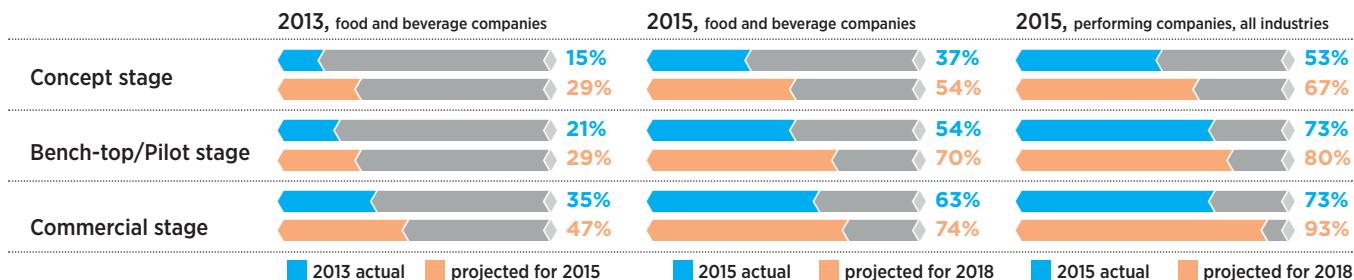
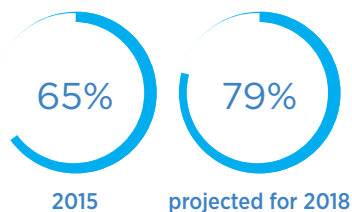
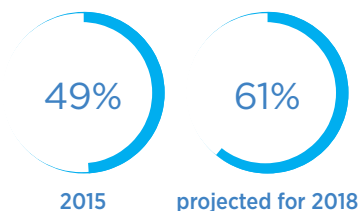


FIGURE 8 Percentage of food and beverage companies with a high or very high level of sustainability integration into interactions with tier 1 suppliers.



Percentage of food and beverage companies with a high or very high level of sustainability integration into interactions with suppliers to the point of ingredient/material production or extraction.



Another challenge is that food and beverage companies mostly source ingredients through suppliers, rather than a vertical supply, and the on-farm impacts of agriculture often seem distant. Yet sustainable agriculture is a critical issue for food and beverage companies.ⁱⁱ Changing the ingredients used, when possible, and reducing the impact of these ingredients at the source are key approaches for food companies. As a result, in addition to product development, supplier management and procurement staff need to be engaged in product sustainability programs.

Procurement teams are integrating sustainability into their work and have plans to increase supplier engagement. Food and beverage companies are reaching not only Tier 1 suppliers, but also further up in the supply chain to raw material production (*Figure 8*). PepsiCo, for example, developed the Sustainable Farming Initiative to guide suppliers in sustainable practices and provide them with resources, training, and support to improve farming methods.

ⁱⁱ Makower, J. and the editors of GreenBiz.com. 2015. *State of Green Business 2015*.

FIGURE 9

Sustainable Sourcing — a valued tool:

Food and beverage companies can drive meaningful improvements in ingredient sustainability through focused sourcing efforts. This includes working with suppliers and finding ingredients that meet one of the following criteria:

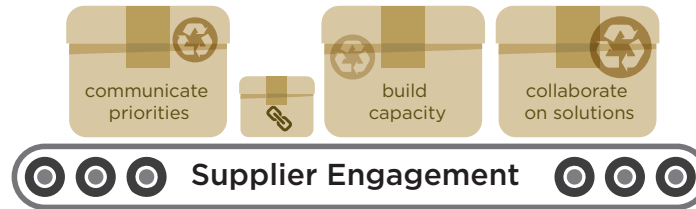
- 1**

Certified to address priority areas
 (e.g., organic, Marine Stewardship Council, Roundtable on Sustainable Palm)
- 2**

Included in an industry or company program to address key impacts
 (e.g., Field to Market, Unilever’s Sustainable Agriculture Code, Starbuck’s C.A.F.E. practices)
- 3**

Verified to meet requirements for issues of concern
 (e.g., sow gestation crate-free, pollinator-friendly, zero waste)

The best practices in supply chain engagement include communicating priorities, building supplier capacity, and collaborating on solutions. This may seem daunting for companies with many suppliers or what may seem like little leverage with their suppliers. There are ways to overcome these challenges by focusing on key impacts and starting small before building or expecting greater change. Sustainable sourcing is often an effective approach companies take to get started (*Figure 9*).



More than 90% of the water used to produce Anheuser-Busch InBev's products goes to growing barley and other agricultural ingredients. The company is engaged with more than 17,000 barley growers to help improve water management and other practices, while gaining efficiencies and enhanced quality, through:

Communication: benchmarking producers through the company's SmartBarley platform to identify best practices and improvement opportunities.

Capacity building: investing in development of new barley varieties, water efficiency technologies and agronomy programs to enhance yield and resource conservation.

Collaboration: piloting water management programs with local and global stakeholders to develop best practices that can extend across producers and crops.



Embed sustainability into the processes core to the business including product development, procurement and supplier management, and operations.

Performance Tracking

There are several powerful examples of food and beverage companies integrating product sustainability into business-relevant metrics, performance tracking, and employee incentives. Smithfield Foods, Inc. publishes an integrated report, showing business and sustainability performance side-by-side. In addition, the company discloses progress on key indicators in their supply chain such as sow housing systems and antibiotic use for livestock (*Figure 10*).

Linking employee incentives to overall performance enhances program results. Ceres noted that connecting executive compensation to sustainability performance is on the rise (24% of companies surveyed in 2014, compared to 15% in 2012).ⁱⁱⁱ Leading companies extend this to the rest of the company, as well, to reinforce sustainability integration. Walmart connects a portion of compensation to sustainability performance for merchant staff to enhance accountability across the organization, for example.

ⁱⁱⁱ Ceres. 2014. *Gaining Ground: Corporate Progress on the Ceres Roadmap for Sustainability*.



Tesco is focused on reducing food waste across the supply chain. At the store level, the retailer is addressing hotspots in bakery and produce, which represent over 60% of the store's food waste.

Initiatives include:

- Displaying less bread in bakeries to reduce the amount prepared unnecessarily
- Improving produce displays to reduce product damage, including adding banana hammocks
- Updating IT systems to optimize stock ordering and daily production planning
- Making a company best practices manual available in all markets

Tesco also reaches upstream to reduce food waste on farms. This connection helps identify where product specifications may be resulting in edible products going to waste, and possible ways to address this. Good communication across the supply chain also enables better forecasting for suppliers and producers to reduce surplus, and identifies other opportunities including:

- Piloting produce varieties with a longer life
- Implementing new protection mechanisms to protect produce post-harvest

Consumer waste is also being addressed through improved product labeling, promotions, and communications.



Build meaningful metrics with performance results visible throughout the company and connected to leadership and employee incentives.

FIGURE 10 Smithfield Foods, Inc. 2014 Integrated Report, Environmental Value Creation

Project Costs and Savings	2004-2014
Number of projects	1,390
Awards Granted	144
Capital expenditures	\$93.9 million
Average cost reductions year one	\$10.1 million
Average return on investment	10.4 months
Estimated net cumulative cost reductions	\$471.6 million

Source: <http://www.smithfieldfoods.com/integrated-report/environment/value-creation-2>

Emerging Issues

Food and beverage companies have adopted a product sustainability approach that addresses social and environmental impacts in agricultural production, manufacturing efficiency, food security, and packaging. Firms are planning to generally maintain their level of attention in these areas while increasing their emphasis on emerging issues over the next three years (*Figure 11*). This means that firms must engage more with their suppliers and supply chains. For example, companies expect to pay significant attention to animal welfare issues, livestock production environmental impacts, and food waste across the supply chain.

Nearly 9 billion food production animals are raised in the U.S.^{iv} Corporate actions in 2015 are advancing transparency, performance, and collaboration across this massive supply chain. General Mills updated its animal welfare requirements, including transitioning egg sourcing to free range hens. The company also adopted the five freedoms of animal welfare to address freedom from

^{iv} Based on data available from the National Agricultural Statistics Service: http://www.nass.usda.gov/Charts_and_Maps/

hunger, discomfort, pain, and fear, plus freedom to engage in normal animal behavior, across all its livestock sectors.

One-third of food produced is lost and wasted each year.^v This adds up to significant environmental and social impacts. The cross-industry group, the Consumer Goods Forum (CGF) — that helped gain broad support on key issues such as deforestation and phasing out hydrofluorocarbon refrigerants — tackled food waste in 2015. CGF adopted a resolution to halve food waste within the operations of its 400 retailer and manufacturers members by 2025 and to support wider UN Goals on the issue. Some companies are already progressing in this emerging area. Early adopters of the CGF’s food waste campaign are focusing on food packaging, inventory management and distribution, and agricultural production systems. The craft brewer Sierra Nevada has a zero waste goal with 99.8% already being diverted from landfill. This includes reducing waste and finding uses for what remains, such as spent grains for animal feed and anaerobic digestion.

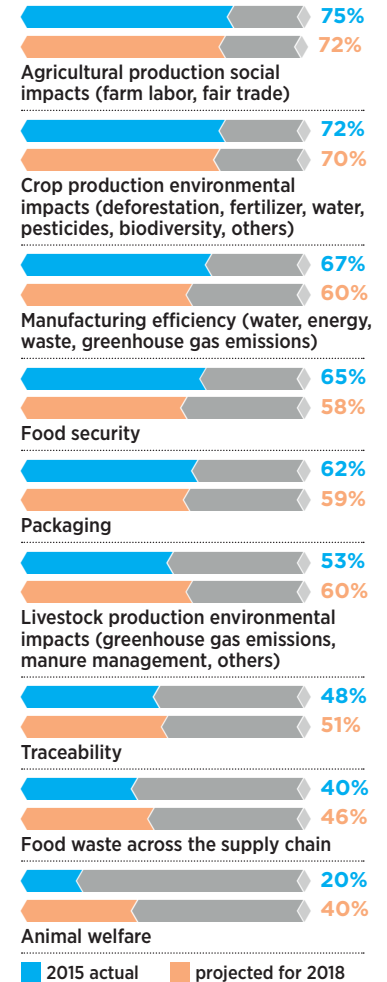
^v Food and Agriculture Organization of the United Nations. 2011. *Global Food Losses and Food Wastage: extent, causes, and prevention*.



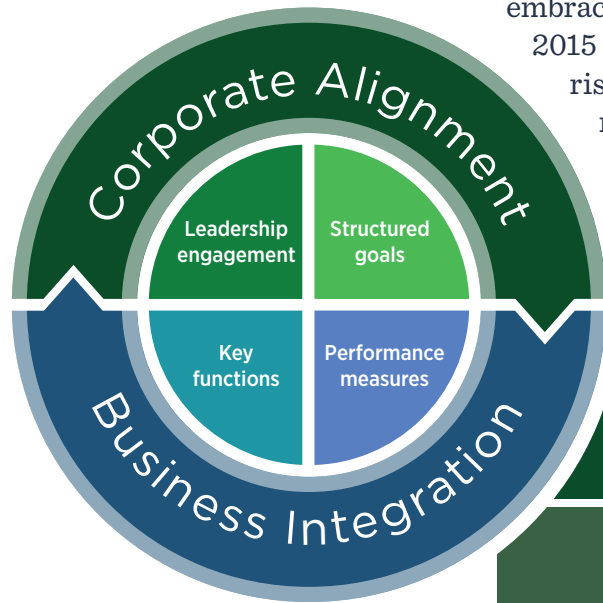
The largest food retailer in the U.S., Walmart, issued an animal welfare policy that applies the five freedoms across its business. Walmart is seeking changes in livestock housing systems that lack sufficient space, enrichment, or socialization such as sow gestation crates and battery cages for hens along with other improvements that align with the five freedoms. The retailer expects its suppliers to adopt and implement these principles and to publish a corporate policy on animal welfare. This approach to supplier engagement has pushed action in the past, making Walmart the top retailer driving investment in product sustainability.^{vi, vii}

^{vi} Pure Strategies. 2015. *Advancing on the Path to Product Sustainability*.
^{vii} PPure Strategies. 2014. *The Path to Product Sustainability*.

FIGURE 11 Percentage of food and beverage companies involved or very involved in addressing the following issues in their product sustainability program.



Successful Product Sustainability Programs



Conclusion

Food and beverage companies are making progress in product sustainability, but are not yet embracing the full suite of practices nor reaping the potential benefits that leading companies report. 2015 and the upcoming years are critical for businesses. Those that fail to build their programs risk being left behind. Advancing corporate alignment through structured goals that address material issues and business integration, from product development to supplier engagement, will help boost the value from these efforts. These actions will also support progress on issues that are important to the industry such as sustainable agriculture, manufacturing efficiency, and packaging, and emerging issues such as animal welfare and food waste.

Product Sustainability Program Blueprint for Success

Does your program include all of these elements to the fullest extent?

Corporate Alignment

Leadership engagement: Ensure the executive leadership team supports the program, is accountable with goals, and visibly participates in the program.

Structured goals: Leverage aspirations, business-relevant goals, and specific targets with a clear focus on material impacts.

Business Integration

Key functions: Embed sustainability into the processes core to the business, including product development, procurement and supplier management, and operations.

Performance measures: Build meaningful metrics with performance visible throughout the company and connected to leadership and employee incentives.



About Pure Strategies

Since 1998, Pure Strategies has been transforming business through sustainability performance. Our team helps companies initiate and enhance existing sustainability programs by setting meaningful goals, devising effective management strategies, and making changes to products and supply chains that deliver value to the business and society. Some of our clients include Walmart, Annie's Homegrown, Organic Valley, Seventh Generation, Colgate-Palmolive, Ocean Spray, Ben & Jerry's, and Radio Flyer.

About the Research

In early 2015, Pure Strategies conducted 152 telephone surveys with individuals across the globe responsible for product sustainability in firms with revenue of at least \$250 million. A subset of performing companies were used to compare to the rest of the sample and were identified as those that have already achieved notable business benefits (e.g., number of benefits and earnings) from their product sustainability efforts. In-depth interviews were also conducted with the heads of sustainability at leading companies such as Mars Inc. and Anheuser-Busch InBev. The research team supplemented this with a review of public information from some of the largest product companies. This report focuses on the food industry research. *Advancing on the Path to Product Sustainability*, a broader industry report, is available at www.purestrategies.com. This study builds on the previous research Pure Strategies conducted in late 2013 and early 2014, which informed our report, *The Path to Product Sustainability*.



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