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Sustainability Paradigm for the Food Supply Chain Sector



Objective of Today's Presentation

- Importance of sustainable practices for F&B companies COP15 and Beyond
- Sustainability as a strategy
- Impact of sustainability
 - -Case Example: Sourcing
 - -Impact on companies Discussion

COP 15 and India's position

Outcome of COP 15

Non-binding political agreement to continue efforts on GHG reductions

Targets set by individual nations

Cap on worldwide temperature increase by 2 degrees

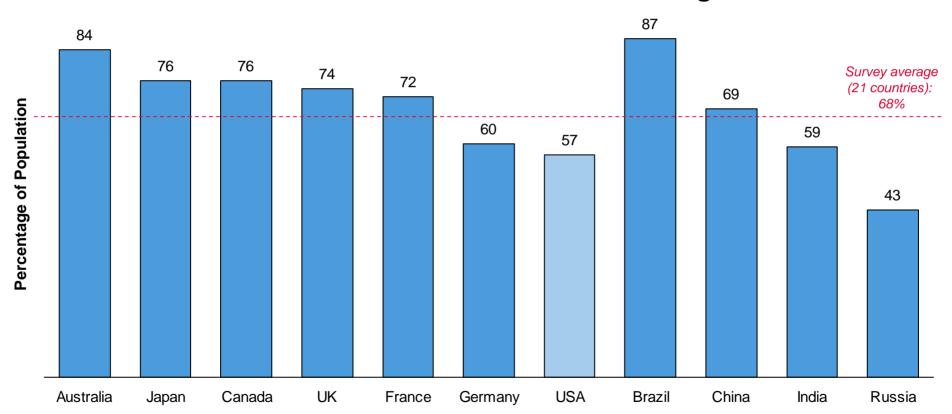
India's Position

"Therefore whatever action we take domestically to pursue sustainable development, let it be clearly understood that there is no legal obligation on the part of India, under existing international instruments, to take on binding emissions reduction obligations, now or in the post 2012 period." - Shyam Saran (PM's Special Envoy on Climate Change

Reduction in carbon emissions by 20-25% by 2020 compared to 2005 levels

Focus on Green Beyond COP 15 - Consumer

"Concerned" About Climate Change



Source: BBC World / Synovate survey among 14,220 respondents in 21 countries in February 2007

Focus on Green Beyond COP 15 - Channel Partner

"The WalMart Factor"

Key Walmart Green Initiatives

- Packaging: Cut packaging waste by 25% in three years
- Logistics: Double overall efficiency of the truck fleet within 10 Years and eventually use 100% renewable energy
- **Energy:** Use of renewable energy sources and more energy efficient technologies such as CFL light bulb
- Green Products: Biggest seller of organic milk and biggest buyer of organic cotton
- Packaging Scorecard: Require suppliers evaluate themselves based on sustainable packaging and efficient solutions including cube utilization
- Environmental Labeling Program: Establish an environmental rating system for the products its sells based their total life cycle

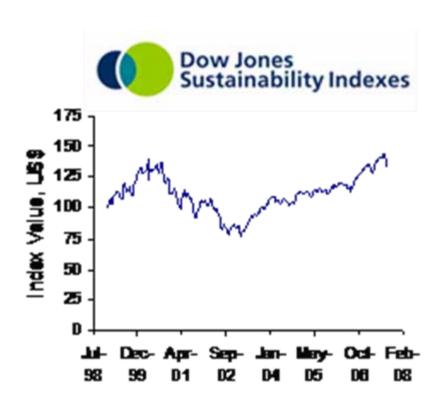
Packaging Scorecard

- Aimed at rewarding sustainable packaging and efficient solutions to improve cube utilization
- Launched February 2008 for all suppliers; applied to over 160,000 products
- Suppliers asked to evaluate themselves based on the "7 R's of Packaging": Remove, Reduce, Reuse, Recycle, Renew, Revenue, and Read
- Initiative is expected to save over 667,000 tons of carbon emissions from entering the atmosphere

Sustainability Index

- Surveying to 100,000 global suppliers to evaluate companies' sustainability -- due Oct '09
- Launched Sustainability Index Consortium together with Arizona State and Univ of Arkansas
- Consortium comprised of a combination of suppliers, retailers, NGOs and government officials
- Objectives are to provide customers with product information in a simple, convenient, easy to understand manner so they can make choices and consume in a more sustainable way

Focus on Green Beyond COP - Shareholders

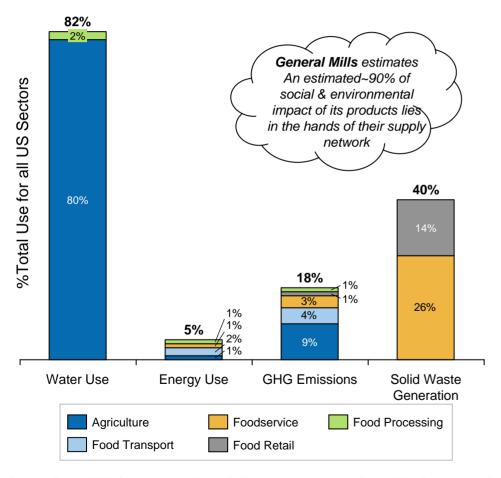


"Sustainable Investment in Australia and New Zealand Outperformed Market in 2010"

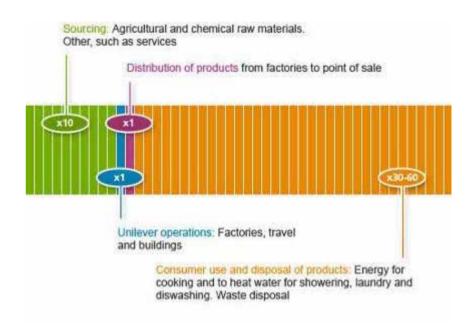
"Green is Gold" - Goldman Sachs

Impact across the Value Chain

General Mills Environmental Impact



Unilever GHG Emissions



5 Billion Tonnes of Carbon emissions by Consumer Goods sector each year

Source: General Mills Sustainability Initiative GMA Presentation Jan '08, General Mils Sustainability Strategy Mar '08; "Moving Fast to a Cleaner Climate; Unilever research

Green as a Strategy

Sample Strategic Choices

Responsible Green (Measure, Report, Comply)

- Pursue green sustainability initiatives which focus on regulatory compliance
- Could be either government driven
- ...or value chain partner driven (e.g., Walmart)

Efficient Green

(Engage, Invest, Drive Continuous Improvement)

- Leverage green to identify cost reduction / efficiencies
- Companies can leverage lean principles to attain this level
- This should be the base minimum for all companies as there is significant money on the table (both cost and revenue) which can be achieved

Differentiated Green

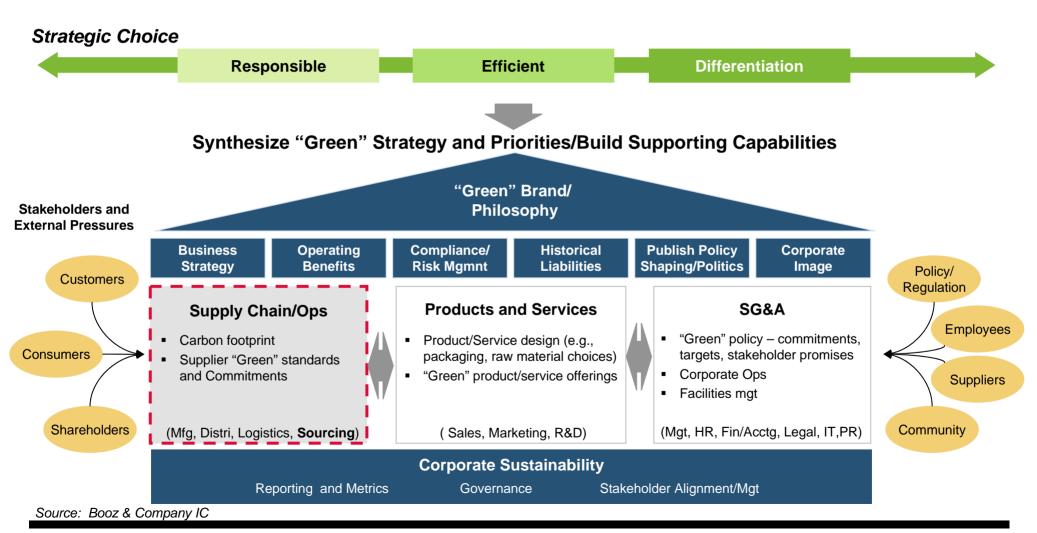
(Elevate, Build Innovation Capabilities, Integrate Marketing Messages, Manage Tradeoffs)

- Elevate Green Strategy to a core strategy, and not just a CSR initiative
- Use the "green lens" through the entire product life cycle, considering the environmental impact through the entire value chain
- Integrate Green Messaging into brand positioning and messages
- Manage trade-offs explicitly across growth, cost, sustainability, risk and service

Source: Booz & Company "Going for Green: A Capabilities Approach to Environmental Opportunity", Dec 2009

Strategic Choice Drives Supply Chain Response

Establish the Corporate "Green" Response



Sustainable sourcing is not a standalone activity, but should be infused into each step sourcing process

Typical Sourcing Process

Baseline Category

Identify
Opportunities
& Develop
Strategy

Conduct RFI/RFP Process

Negotiate Deal Prepare Contracts & Sign Agreement Develop Ongoing
Tracking
Mechanisms

Implement

Key Activities

Sustainable

Sourcing

Develop sourcing baseline and understand requirements

- Understand purchasing process
 - Responsibilities
 - Timing

- Convert basic
 understandings into actionable ideas, e.g.,
 - Volume bundling
 - Leveraging crossbusiness unit price differences
- Test hypotheses
- Compose RFI/RFP based on category specific information and data requirements
- Ensure efficient and effective evaluation process
- Screen and select vendors

- Develop negotiation strategy
- Conduct several rounds of discussion
- Leverage volume allocation and pricing knowledge
- Resolve any open questions and issues

- Close on all open items
- Resolve timing issues
- Draft and review contract
- Finalize and sign agreement(s)
- Develop necessary support systems and processes
 - Tracking systems
 - Compliance measures
- Create action/ transition plan
- Track progress



Baseline and map current sustainable commodity strategies

- Understand lifecycle impact of sourcing categories
- Ensure commodity strategy alignment with corporate sustainability objectives



- Identify specific product/process opportunities to achieve corporate sustainability goals
- Evaluate sustainable opportunity trade-offs
 - Define product & environmental challenges for sustainable substitutes
 - Conduct cost benefit analysis



- Communicate sustainability goals internally & externally
- Include sustainability requirements within RFI/RFP___
- Request supplier insight on auxiliary sustainable opportunities

Establish sustainable

sourcing criteria & imbed in RFI/RFP evaluation process



- Include sustainable sourcing goals within negotiation
- Develop timeline for improving supplier sustainability targets
- Identify areas of potential collaboration
 - Innovation of new materials
 - Reconfiguring supply chain processes



- Include Responsibility
 Agreements within
 contracts outline
 supplier development
 & progression of their
 own sustainability
 program
- Institute a code of conduct specifying sustainable practices supplier must adhere to when producing/ supplying your products

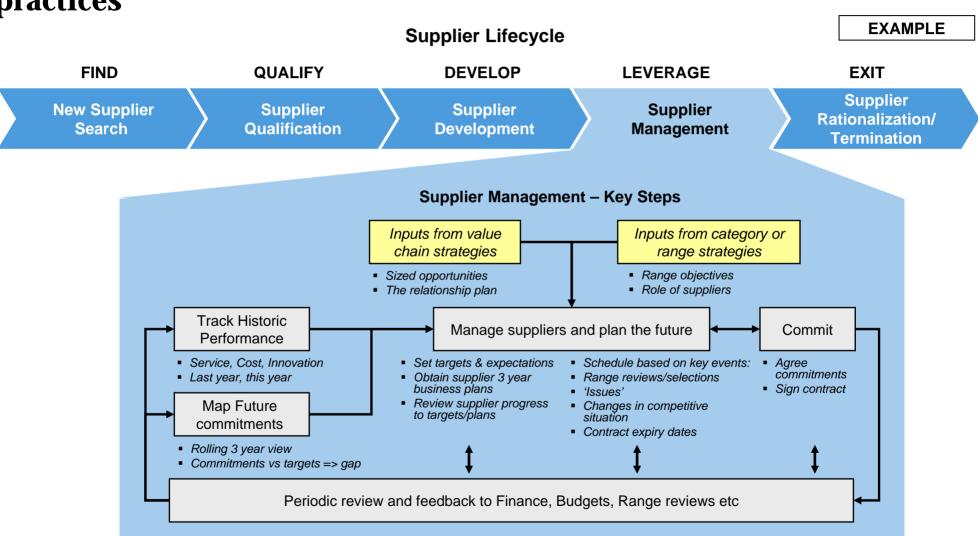


- Develop on-going monitoring and tracking mechanisms
 - Supplier selfassessments
 - External Reviews/Audits
 - On-site visits
- Include sustainability metrics in supplier dashboards/ scorecards



- Monitor and track sustainability performance
- Develop joint development plans as required
- Educate suppliers on corporate sustainability progression & application to their supply chain

... As well as into ongoing supplier relationship management practices



Sustainable approaches should not be a "one size fits all", but tiered for supplier segments to minimize burden and maximize impact

Supplier Segmentation Framework EXAMPLE Compliance Against Joint Development High **External Standards** Close collaboration on sustainability innovation · Use external resources to · Conduct audits as necessary monitor sustainability and require adherence to compliance external standards Require supplier to train and Supplier's support Tier 2 suppliers Resources to **Promote High Level of Monitoring** Sustainability Low Level of Monitoring (Direct Support) · Identify suppliers with higher capabilities -- assess cost and Track annual performance benefit of replacing suppliers · Conduct annual audits (if • Provide resource support to necessary) build supplier sustainability capabilities Low Conduct frequent audits **Supplier's Contribution to Company's** High Low **Environmental Footprint / Risk to Sustainability Goals**

- Leverage supplier's initiative to increase the scope of the program
 - Supplier can target and train their upstream suppliers
 - Best practices can be shared across supplier tiers
- Large incremental impacts can be achieved with relatively low vendor efforts
- Prioritize internal resources for maximum supplier impact
- Create targeted goals for capability development
- Audit, monitor and track suppliers as capability investments are made and progress towards goals are achieved

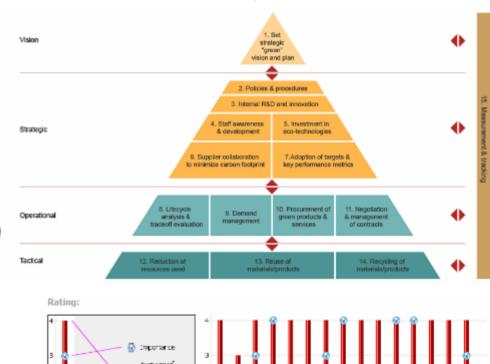
In addition, segmentation drives a waved approach to implementation

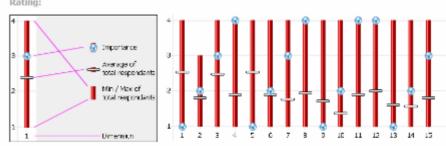
To overcome the inherent challenges with green sourcing, several key capabilities must be developed

Required Capabilities

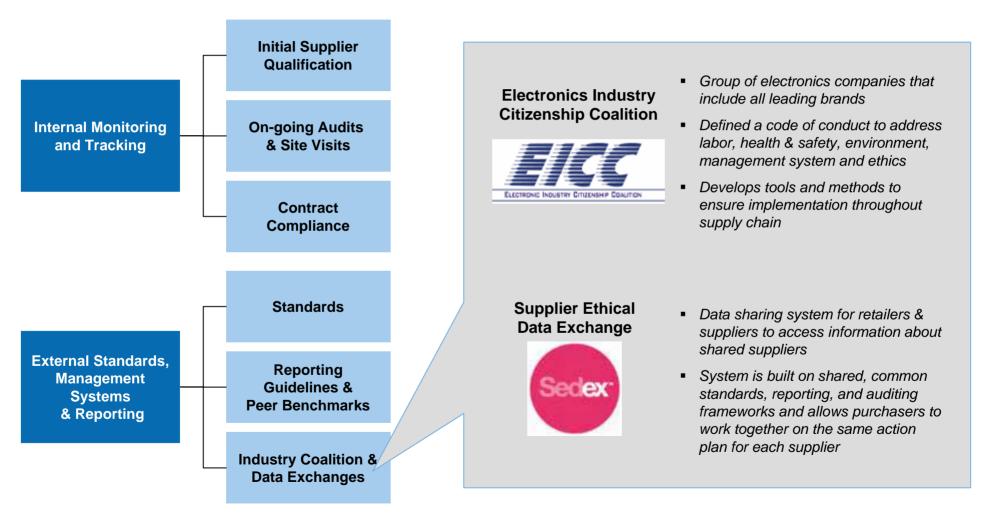
- 1) New Sourcing approaches / processes
 - Across full lifecycle
 - Embedded into ongoing supplier management
- 2) Increased collaboration
 - Internal with key functional stakeholders
 - External with supplier network and customers
- 3) <u>Infrastructure</u> model (organization, skills, roles and responsibilities) to support new requirements
- 4) Change of organizational <u>mindset</u> to integrate green considerations into purchasing decisions
- Clear and transparent <u>metrics</u> to track supplier performance

Procurement Capabilities Framework





A sufficient level of internal and external monitoring and tracking mechanisms are needed to create transparency and manage change



¹⁾ Developed through a partnership with the World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD)

Widespread impact across the Value Chain

- ve Impacts

- Significant effort and investment
 - New raw materials and packagingpotentially higher cost
 - New suppliers / re-qualification of existing suppliers
 - Potential certification requirements
 - Energy and Water audits
- Disruptions to existing operations
- Monitoring and measuring impact

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+ ve Impacts

- Opportunity to re-define strategy
- Potential savings through energy efficiency, lower water use, alternate raw material and packaging use
- Stronger partnership with players across value chain
- Potential to benefit with "carbon credits"

• ...

Appendix

Companies are taking proactive steps



- Initiatives focused on improving environment, society and create economic impact
- Earned CERs for the work



- Key objectives are a) growing markets responsibly b) ensuring sustainable practices in business, and c) building reputation through responsible leadership
- Received 52,000 VER (Voluntary Emission Reduction) for new process eliminating use of steam



- Focus on reducing energy consumption, green technology absorption and HSE
- Plans to become carbon positive in the next few years
- 30% steam generation from renewables



- Focus on reducing water & electricity consumption, improving packaging sustainability
- 38% of energy used is from renewable resources and is overall water positive

In evaluating a sourcing decision, the trade-offs amongst viable environmental options may not be readily apparent

"Green" Options





















Recycled Paper



Recycled Paper:

 Product derived from some level of postconsumer waste

PROS:

- Provides a market for paper waste
- Encourages more recycling
- Uses less energy and creates fewer emissions than producing virgin paper

CONS:

- Recycled fibres can only be reprocessed 6-8 times before they become unusable
- Still requires the use of some virgin fibers to make recycled paper
- Often requires bleaching in order to create the finished product – bleaching is linked to health risks, endangers wild and aquatic animals and produces millions of gallons of waste water annually

FSC Certified



Forest Stewardship Council:

- Fiber comes from forests that are sustainably managed
- Logo identifies products that come from a properly managed forest meeting specific FSC quidelines

PROS:

- Renewable, economic, supply of timber from source that sustains native wildlife and noncommercial trees
- Reduces need for bleaching

CONS:

- Managed for maximum yield and may be limited to only one species
- Require herbicides, pesticides, and fertilizers
- Often can result in rapid diminishing of bird and insect populations
- Requires more energy to produce than recycled post consumer waste paper

If you were a CMO interested in green, would you choose "Recycled" or "FSC" paper for your Direct Mail?

Leading consumer companies are spearheading multiple Green Sourcing Initiatives to improve business operations













Importance of "Green" for FMCG Companies

Global Warming - COP 15



Consumer Awareness



Differentiated Models

Green Catalogs



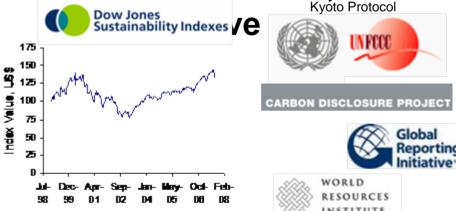
Certifications and Logos





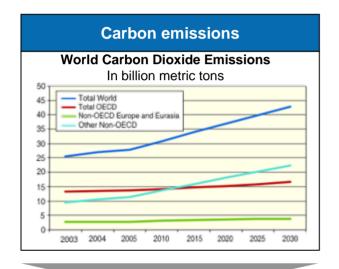


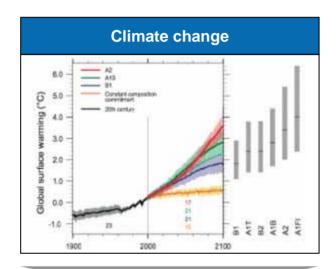
Increasing financial, NGO Kyoto Protocol



Global warming scenarios are also forcing governments to focus greater attention towards the carbon agenda

Carbon Agenda





Political agenda

- Carbon reduction is on the political agenda across the world. Major activities on the agenda are:
 - Renewable energy targets (currently at 64 countries across the world in place)
 - Carbon trading (e.g. EU ETS)
 - New technologies (e.g. CCS) and renaissance of nuclear power

World CO2 emissions are expected to increase by 1.8% annually, much of the increase is expected to occur in the developing world

IPCC is forecasting an increase of ~1.8°C in the best case scenario and 4°C for the high scenario

Reducing carbon emissions requires national and international actions and collaborations across regions

Source: EIA, IPPC, REN21, Booz & Company analysis

Many companies have set aggressive targets and even branded their internal initiatives



Targets

Carbon Negative Starting 2008





Carbon Neutral Starting 2010





Reduce direct CO2 emissions from manufacturing 25% by 2012 (vs. 2004 base)





Water Neutral Starting 2010





100% recoverable or biodegradable packaging starting in 2010





Reduce water & electricity consumption by 20%, and fuels consumption by 25% per unit of production by 2015 (vs 2006)





Generate at least \$20 Billion in cumulative sales of products with reduced environmental impact by 2012

Sources: Company Websites, Annual Reports, CSR Reports, IRI; Booz Allen Analysis

Green Branding





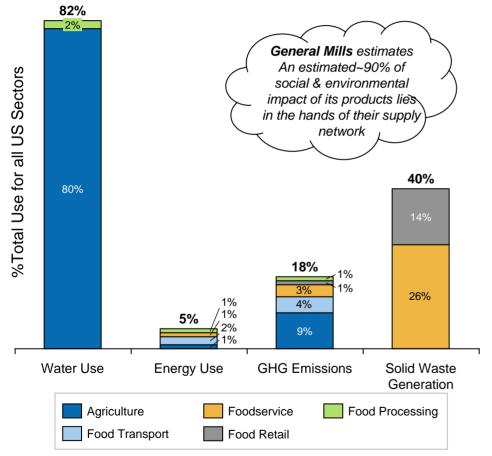






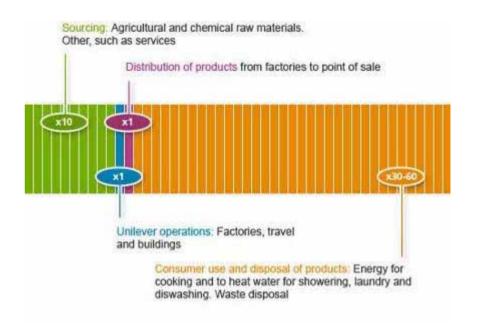
Companies are increasingly adopting a system-wide perspective – beyond their own "four walls" – to manage sustainability risks

Environmental Impact of Food Industry Relative to Total Sector Impact



Unilever

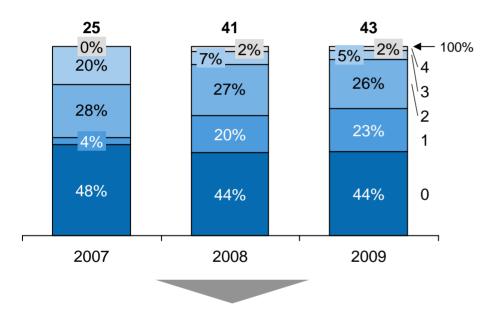
Considers greenhouse gas emissions at every stage of the value chain



Source: General Mills Sustainability Initiative GMA Presentation Jan '08, General Mils Sustainability Strategy Mar '08; Unilever website

... and the awareness of sustainability issues is also increasing and at times aided by NGOs

Karmyog CSR Rating¹ of FMCG Cos in India



Performance of FMCG companies is improving but still many are in the lowest bracket

Greenpeace Safe Food Guide

Safe Category	Name of Companies
Green	 ITC PepsiCo Ruchi Soya Dabur Haldiram MTR
Red	 HUL Britannia Cadbury India Godrej Nestle Parle Kellogg Agrotech Foods Bambino Agro Fieldfresh Foods Safal

1) 5 is the best rating and 0 is the worst rating on CSR performance Source: Secondary research, Booz & Company analysis

In Booz & Co's view, a successful green strategy should embody the following characteristics ...

Essential Green Strategy Characteristics

Holistic - addressing sustainability from an end-to-end perspective

Integrated – aligning with core business strategies and objectives

Results Oriented – focusing against prioritized opportunities

Programmatic – mobilizing the organization and providing leadership, resources and tools

Sustained – reinforcing progress by sharing of ideas & impacts, with transparency of performance

Source: Booz & Company IC

... and should be supported by defined monitoring & tracking mechanisms to create transparency & enable a holistic green effort

Sustainability Reporting Regulatory & Standards Compliance Annual Corporate Sustainability Report, (e.g., GRI Federal, state and local laws sustainability guidelines) Pending GHG reporting laws Carbon Emissions Disclosure (e.g., CDP) FASB/SOX, e.g., environmental liabilities **Environmental** Accountability Periodic independent auditing Both Corporate and broader supply chain network, e.g., & certification of reports and claims, e.g., Internal metrics (Water, Waste, Energy, GHG) LEED/USGBC EPA Climate Leaders - Achievement of goal commitments - ISO14064 Climate Registry Supplier self-assessments and contract WRI GHG Protocol compliance **3rd Party Auditing Metrics & Measurement**

An integrated strategy includes, as an example, aligning the brand promise, with company's business model

EXAMPLE

Responsible Supply Committed Executive Safe, Healthy, Green **Underserved Product Development Community Focus** Leadership Chain Process efficiencies Internal commitment Expansion of Providing access to driven from central sustainable offerings that cut out material core products and figure-head (energy-efficient, reand energy waste service for Thought leadership usable, fair trade, etc) Assurance of ethical populations in need within industry Product innovation labor standards (BOP methodologyinvestment. R&D No artificially banking, connectivity, externalized costs product availability) Microsoft Johnson-Johnson Timberland 4 WAL*MART Unilever

A brand is only one – very important – part of a business model; integration becomes critical as sustainability strategy becomes part of a company's strategy for growth and innovation

Within supply chain, 'green sourcing' can be a key enabler of a corporate sustainability strategy

- Sourcing is in a unique position to influence action across an organization and can be a strong leverage point for starting a green initiative
 - Sourcing has gained C-suite credibility as a competitive cost management tool and the function is expanding its sphere of influence in most organizations
 - Sourcing activities lie at the nexus of a number of functions and business units and third party spend typically represents 40-45% of revenue at most companies
 - In addition, sourcing maintains key supplier and other external relationships
- A best-in-class, rigorous sourcing function has the capabilities and experience to evaluate complex trade-offs among price, quality and service...
- These capabilities can be leveraged and expanded to include the key sustainability considerations
- By working with senior leaders in other functions, sourcing executives can enable a successful, holistic, multifunctional strategy for reducing environmental impact while cutting costs and building better relationships with suppliers and communities.