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Sustainability Paradigm for the Food Supply Chain Sector



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Objective of Today's Presentation

- Importance of sustainable practices for F&B companies - COP 15 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



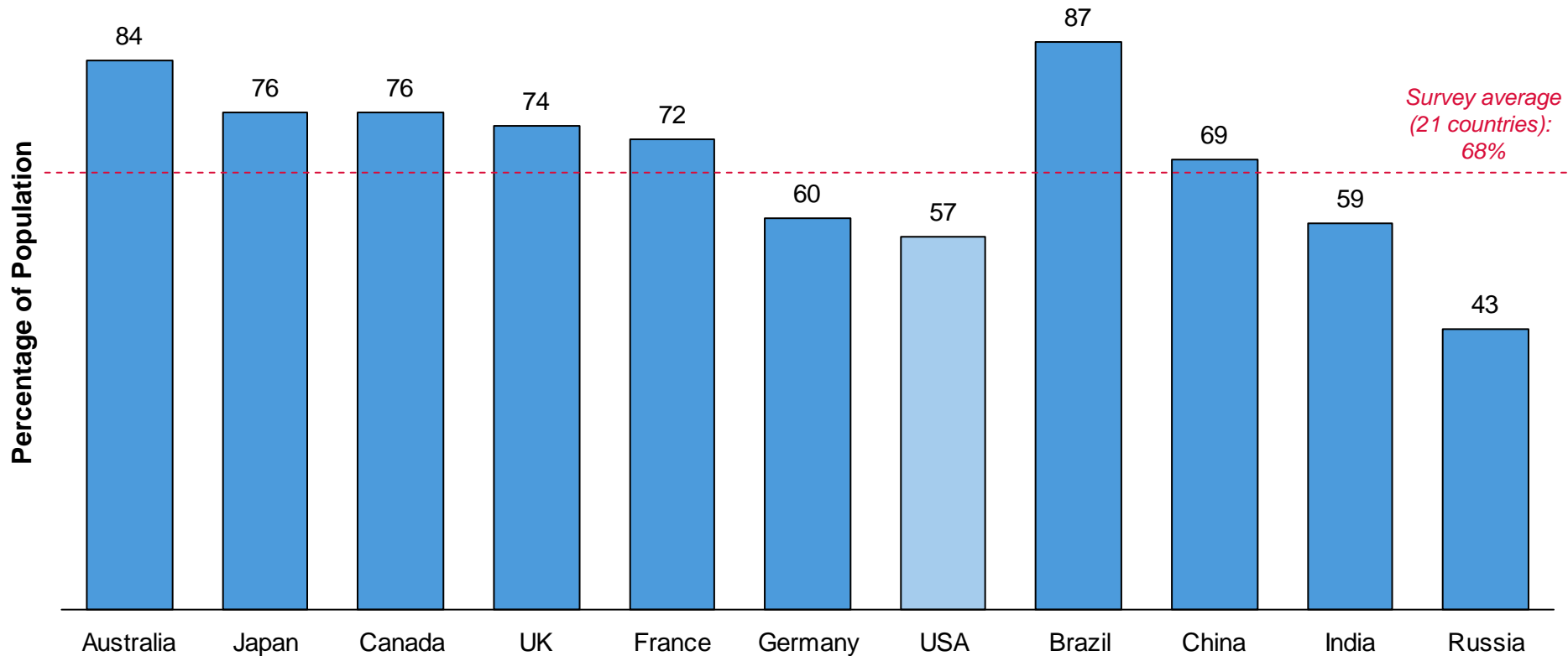
India's Position

"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

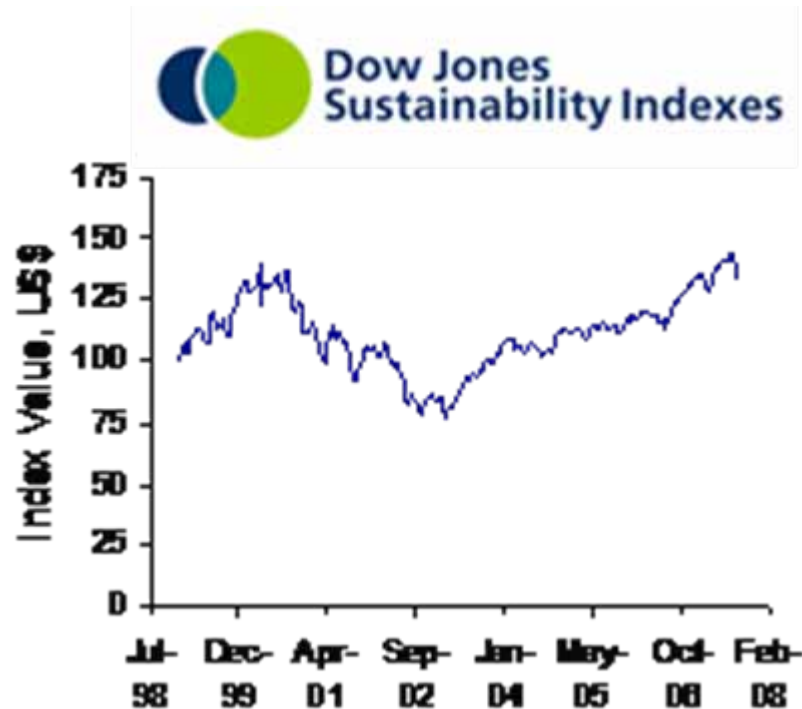
Packaging Scorecard

- 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

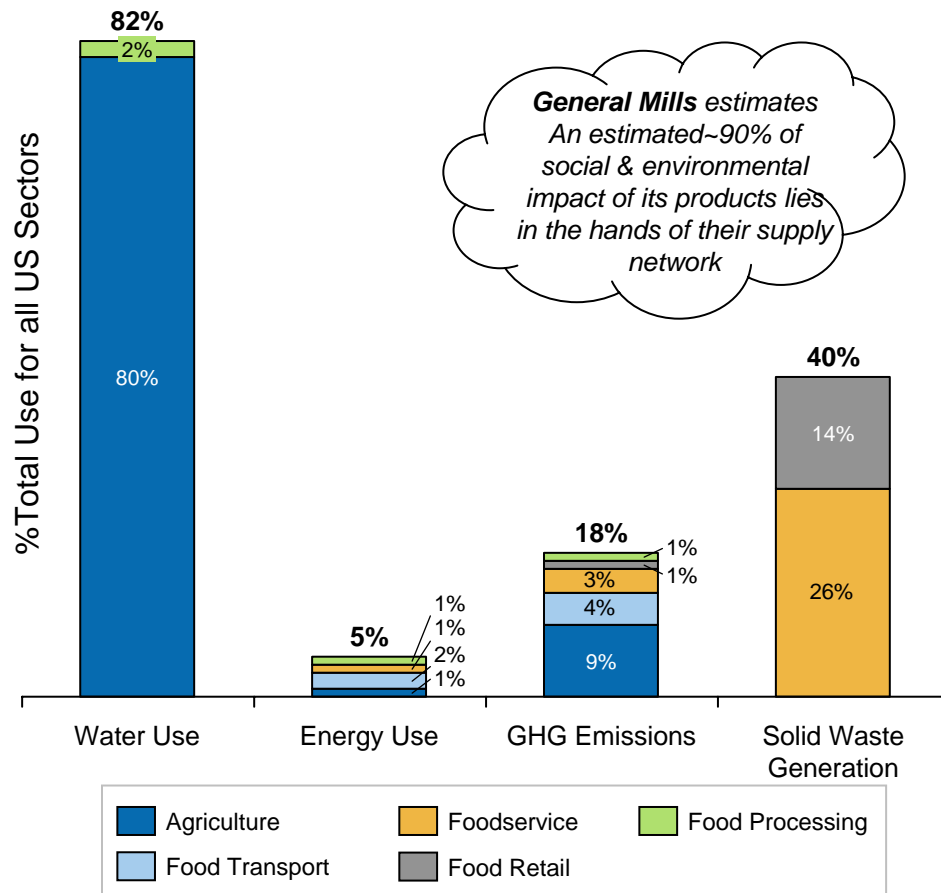


“Sustainable Investment in Australia and New Zealand Outperformed Market in 2010”

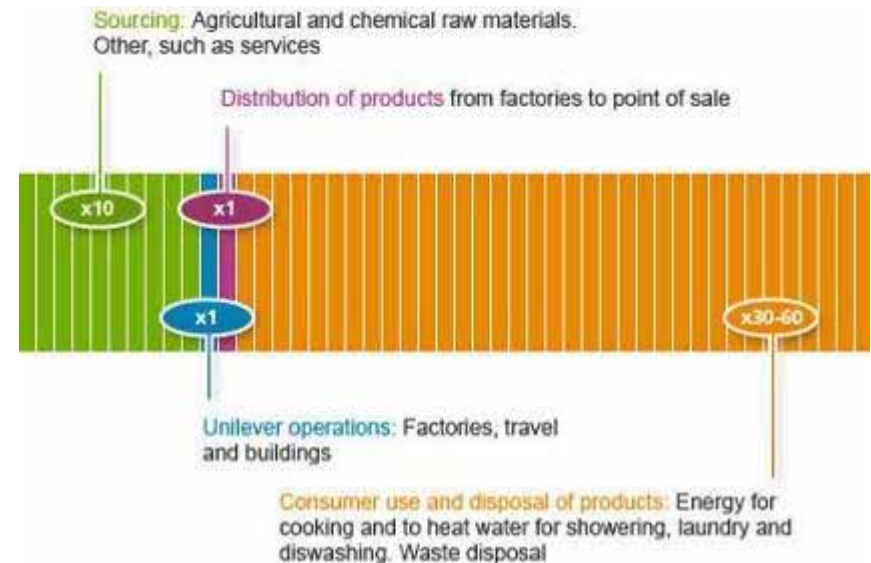
“Green is Gold” - Goldman Sachs

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 Mills 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

Strategic Choice

Responsible

Efficient

Differentiation

Synthesize “Green” Strategy and Priorities/Build Supporting Capabilities

“Green” Brand/
Philosophy

Stakeholders and
External Pressures

Business
Strategy

Operating
Benefits

Compliance/
Risk Mgmt

Historical
Liabilities

Publish Policy
Shaping/Politics

Corporate
Image

Supply Chain/Ops

- Carbon footprint
- Supplier “Green” standards and Commitments

(Mfg, Distri, Logistics, **Sourcing**)

Products and Services

- Product/Service design (e.g., packaging, raw material choices)
- “Green” product/service offerings

(Sales, Marketing, R&D)

SG&A

- “Green” policy – commitments, targets, stakeholder promises
- Corporate Ops
- Facilities mgt

(Mgt, HR, Fin/Acctg, Legal, IT,PR)

Policy/
Regulation

Employees

Suppliers

Community

Customers

Consumers

Shareholders

Corporate Sustainability

Reporting and Metrics

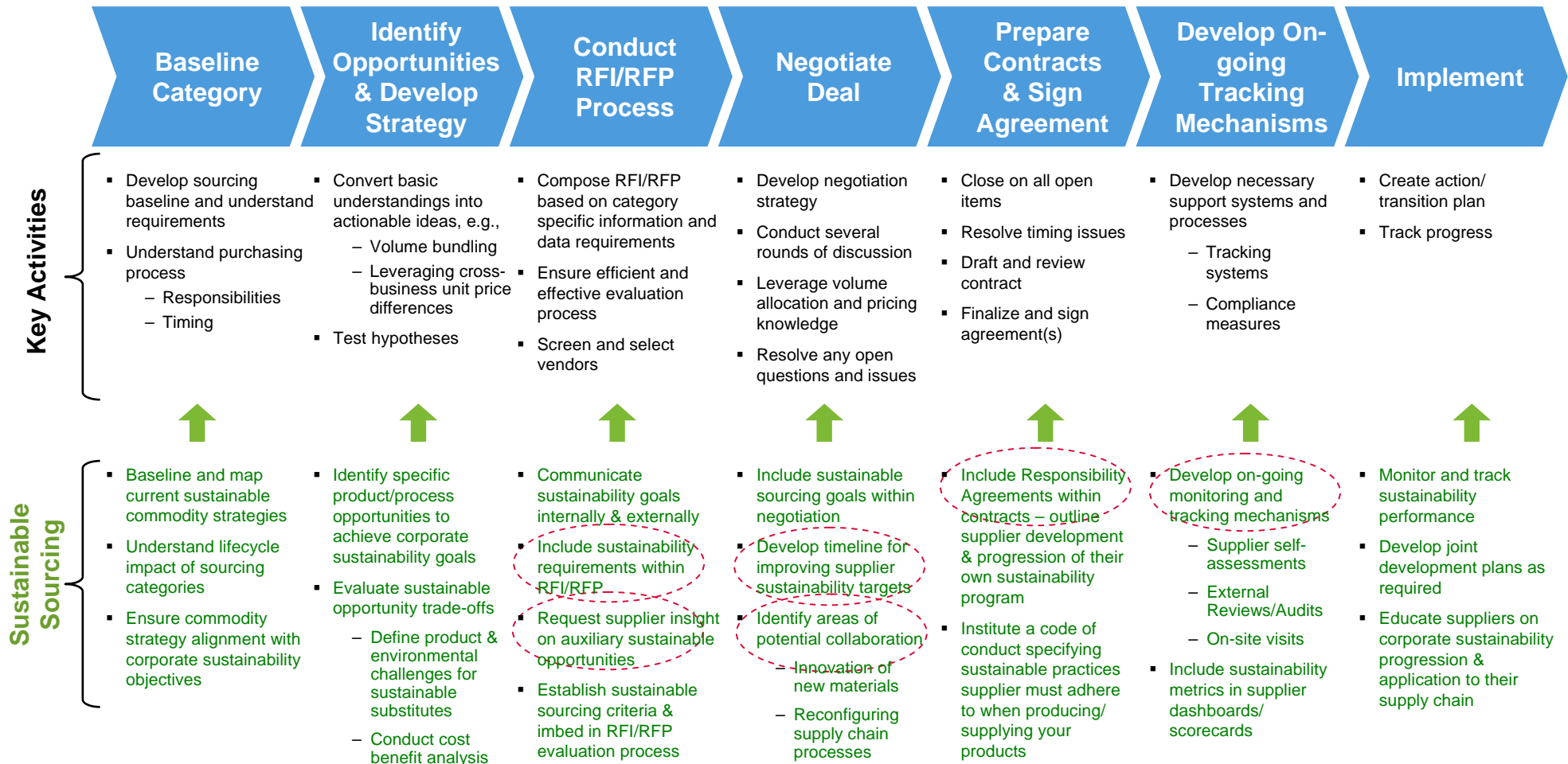
Governance

Stakeholder Alignment/Mgt

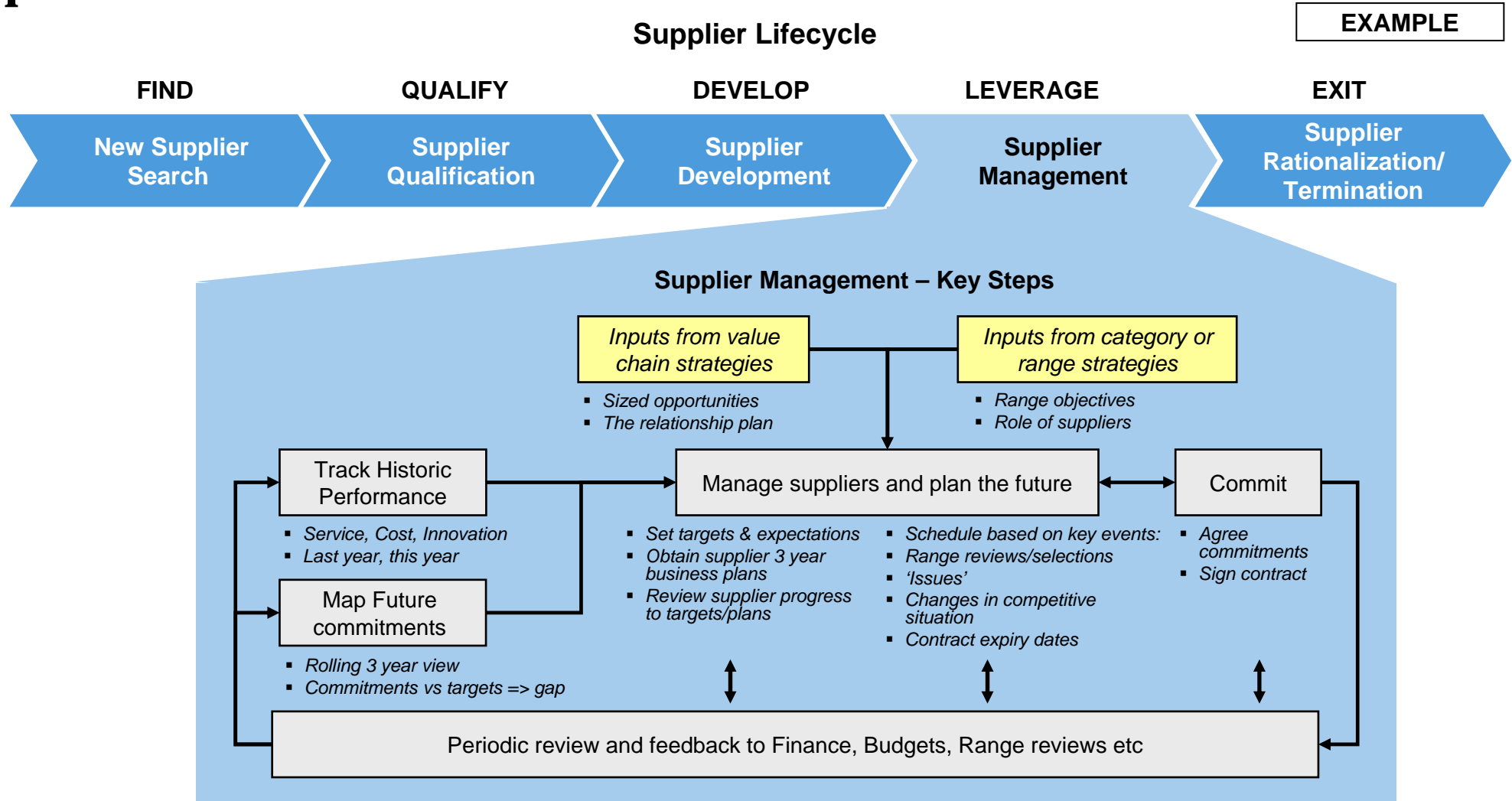
Source: Booz & Company IC

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

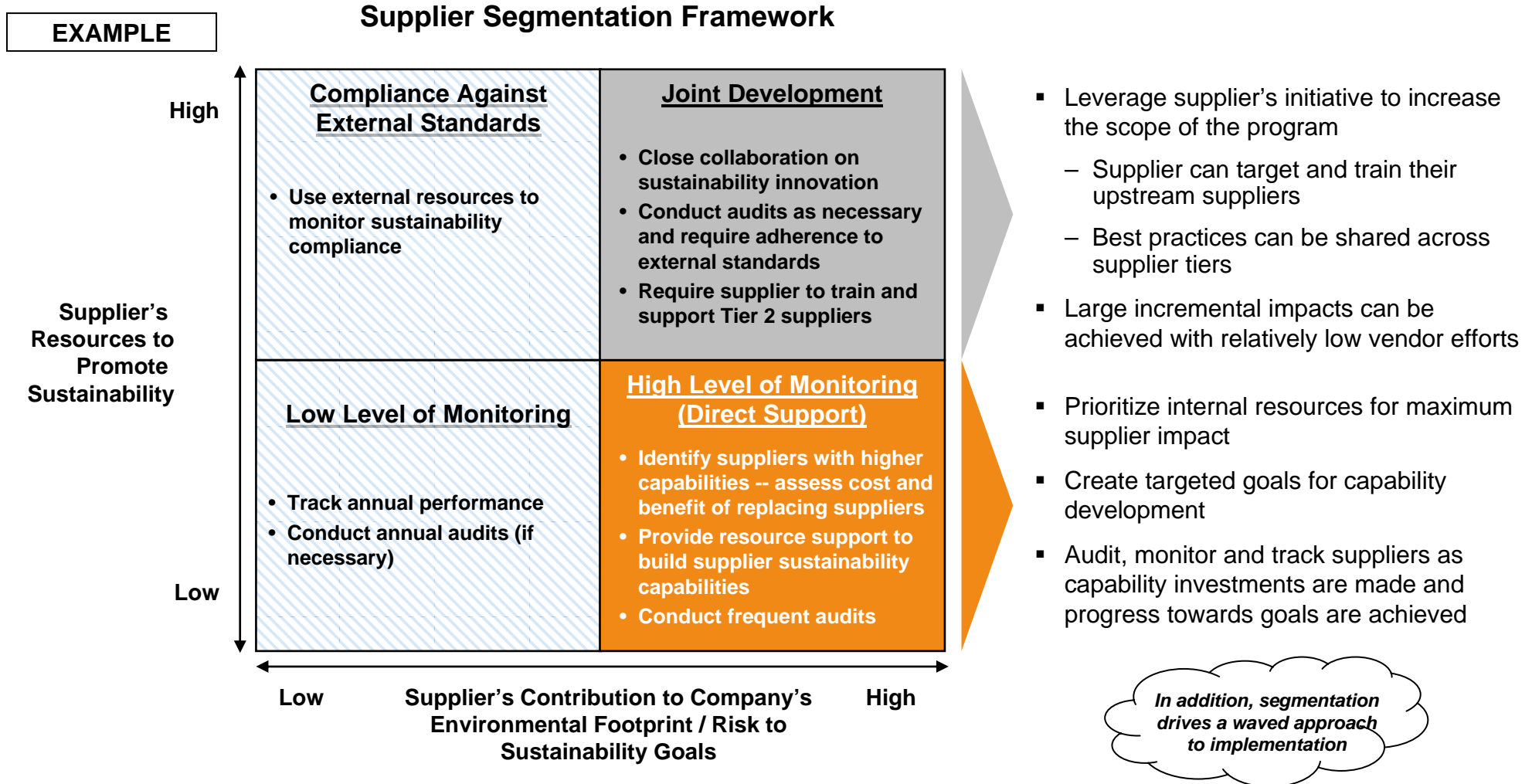
Typical Sourcing Process



... 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

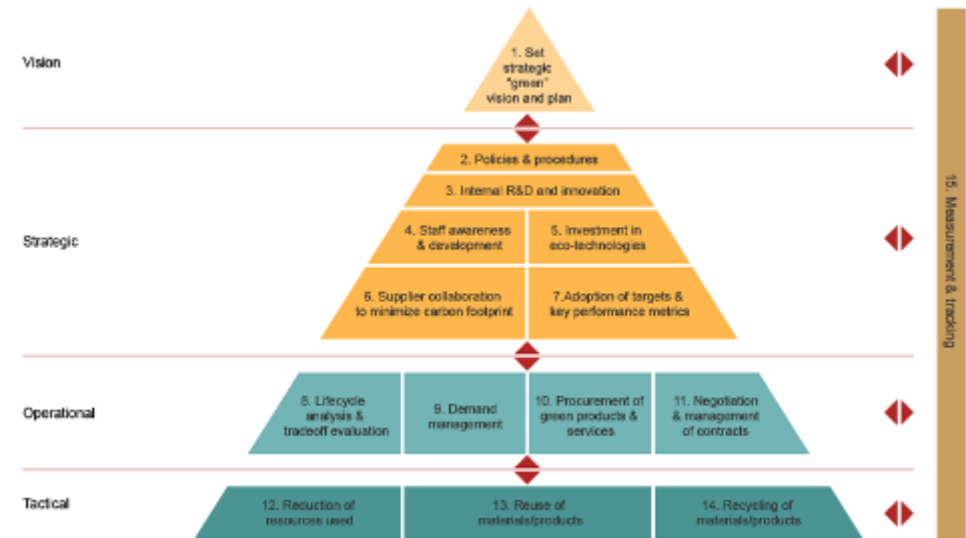


To overcome the inherent challenges with green sourcing, several key capabilities must be developed

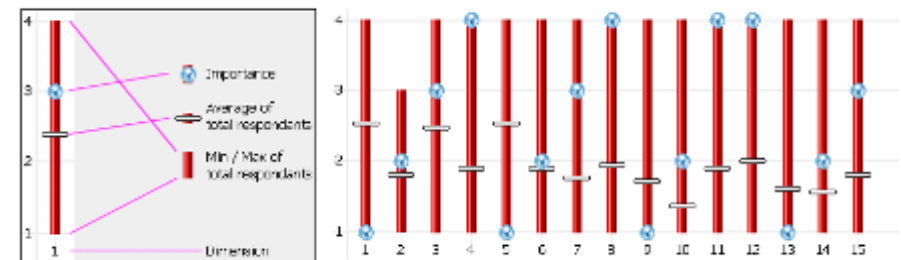
Required Capabilities

- 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) Infrastructure model (organization, skills, roles and responsibilities) to support new requirements
- 4) Change of organizational mindset to integrate green considerations into purchasing decisions
- 5) Clear and transparent metrics to track supplier performance

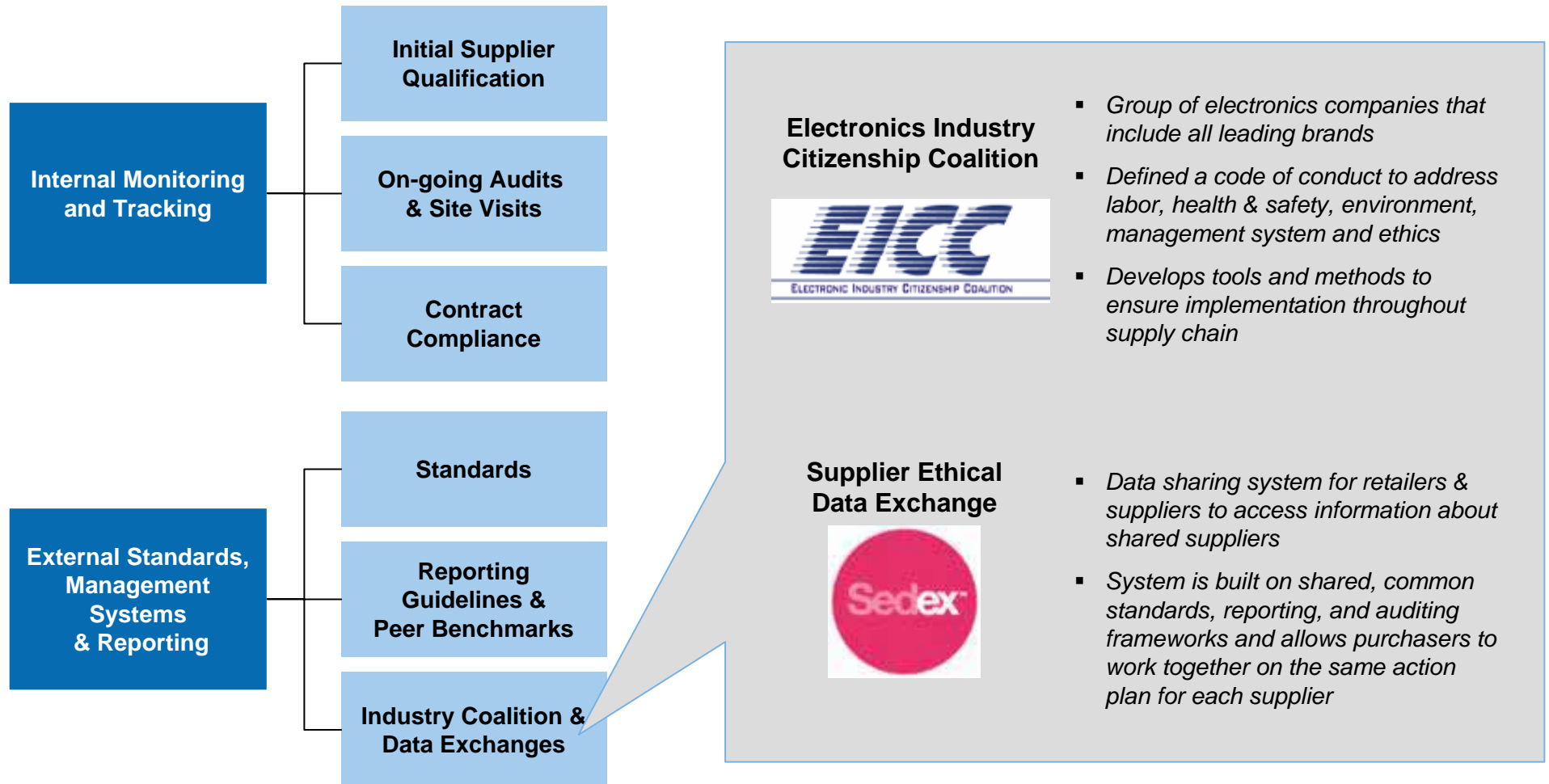
Procurement Capabilities Framework



Rating:



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 packaging
 - potentially higher cost
 - New suppliers / re-qualification of existing suppliers
 - Potential certification requirements
 - Energy and Water audits
- Disruptions to existing operations
- Monitoring and measuring impact
- ...

+ 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 post-consumer 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 guidelines
- **PROS:**
 - Renewable, economic, supply of timber from source that sustains native wildlife and non-commercial 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

Sustainable Farming and Agricultural Practices



FSC Certified & Non - Endangered Wood Purchase



PCR Content & Managed Tree Farm Paper Procurement



Clean/Green Energy Sourcing



Packaging Redesign, Reduction and Recycling



Other Green Sourcing Initiatives



Importance of “Green” for FMCG Companies

Global Warming - COP 15



Consumer Awareness

Popular Press



Advertising



Labeling



Differentiated Models

Green Catalogs



Certifications and Logos



Increasing financial, NGO



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

Carbon Agenda

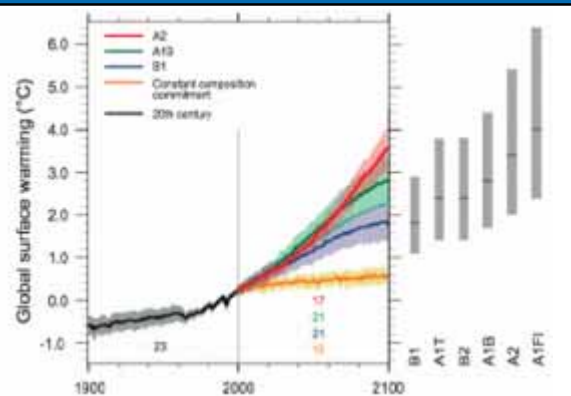
Carbon emissions

World Carbon Dioxide Emissions
In billion metric tons



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

Climate change



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

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

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

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

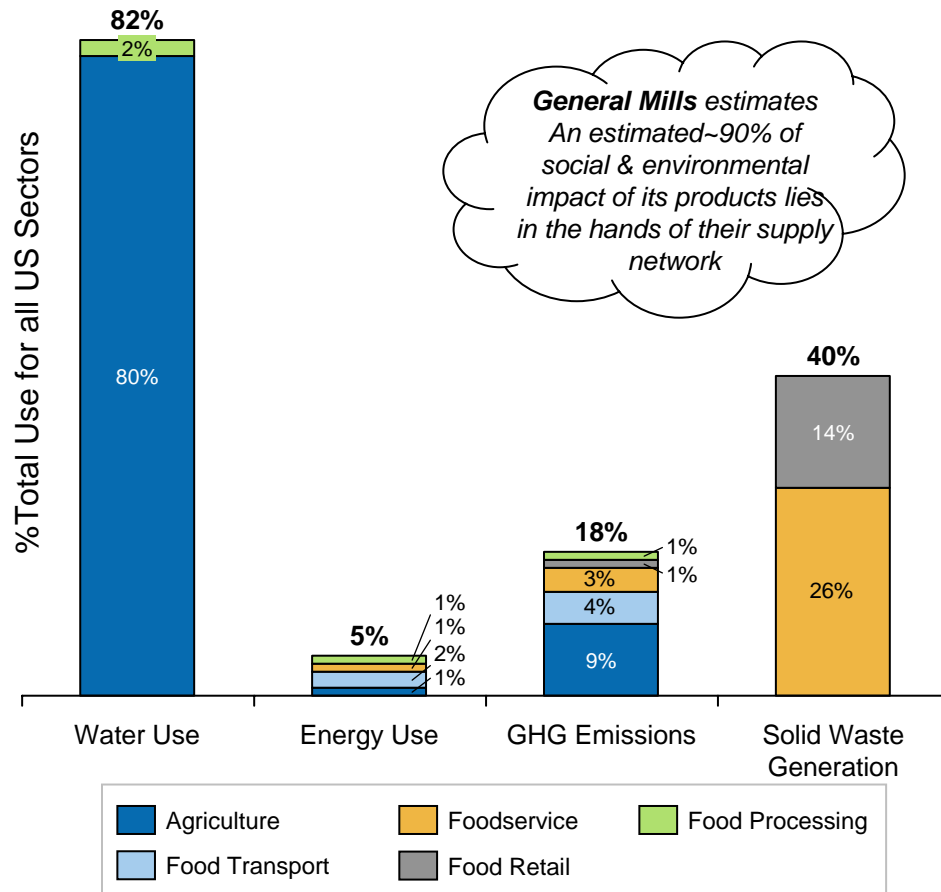
Green Branding



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

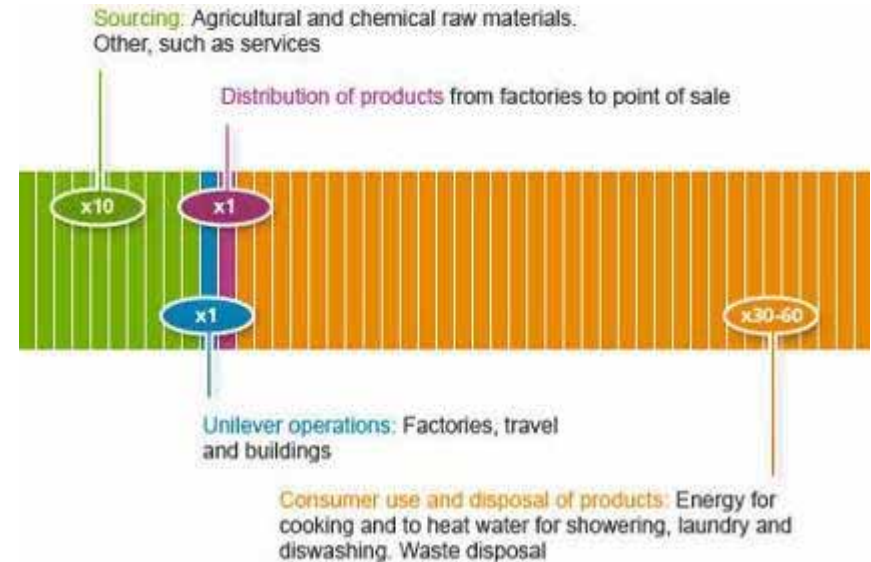
Companies are increasingly adopting a system-wide perspective – beyond their own “four walls” – to manage sustainability risks

**Environmental Impact of Food Industry
Relative to Total Sector Impact**



Unilever

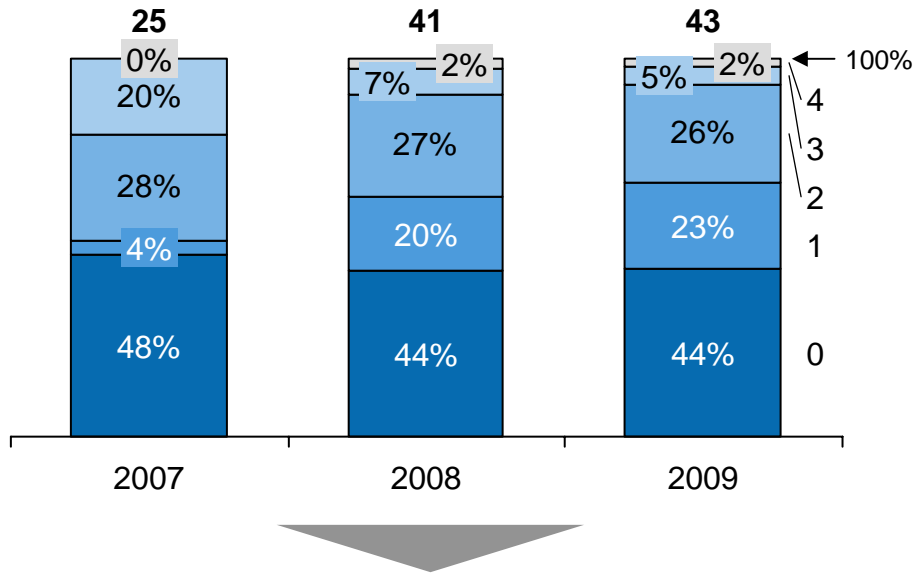
Considers greenhouse gas emissions at every stage of the value chain



Source: General Mills Sustainability Initiative GMA Presentation Jan '08, General Mills 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	<ul style="list-style-type: none"> ITC PepsiCo Ruchi Soya Dabur Haldiram MTR
Red	<ul style="list-style-type: none"> 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

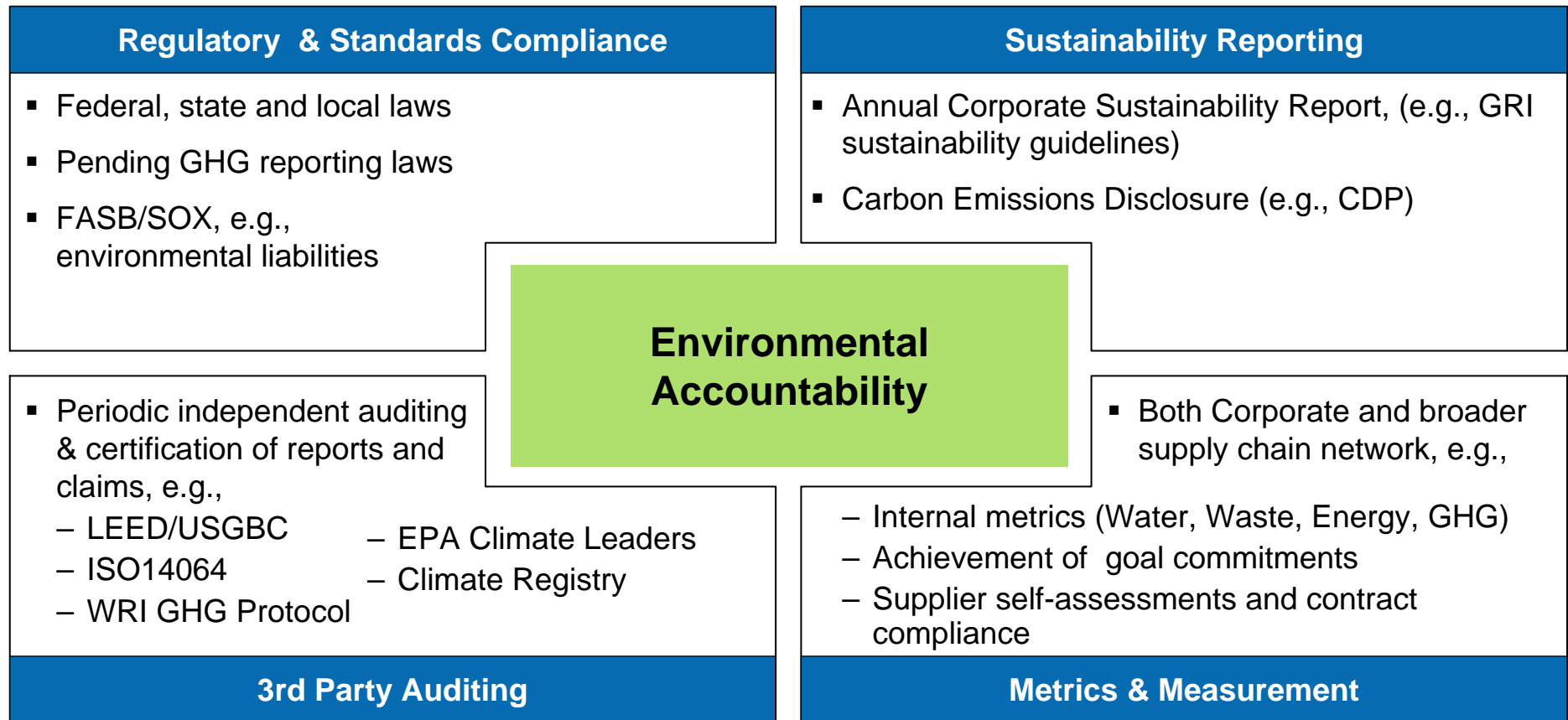
Results Oriented – focusing against prioritized opportunities

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



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

EXAMPLE



**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.