

Making Supply Chains Sustainable

The role of private sector companies

Food companies are increasingly sourcing 'sustainably'

- CoCa-Cola WWF Partnership on conserving freshwater resources
- Heineken: local sourcing in Africa
- Unilever: Sustainable Living Plan – mainstreaming sustainable agriculture: 100% by 2020
- McDonalds: sustainable beef
- Nestlé and Danone: closely working with 600.000 / 120.000 dairy farmers.
- Walmart: Implementing sustainable agriculture in China
- Migros: sourcing sustainable palm oil
- Starbucks: applying C.A.F.E. standards for sourcing coffee through cooperatives/farmers.
- Tchibo: sustainability through direct support of coffee farmers
- Kellogg: work towards sustainable sourcing (wheat, corn, rice) with suppliers and farmers through Keystone Alliance.



What is the business case for sustainable sourcing?

- What does companies motivate to go for 'sustainable' sourcing:
 - supply security: continuous availability of inputs
 - supply quality
 - reputational risk
 - consumer demand
 - ethical motivation of company owner(s)
- What drivers dominate, depends on ...
 - position in supply chain (trader, producer, retailer, ...)
 - character of the market (demand or supply dominated), quality required
 - issues attached to specific inputs / public pressure
 - visibility of the company, legal form, etc.
 - recognisability of the raw material in end product
 - type of consumer market
- Without sufficiently strong drivers: no business case.

How companies look at their sourcing strategy

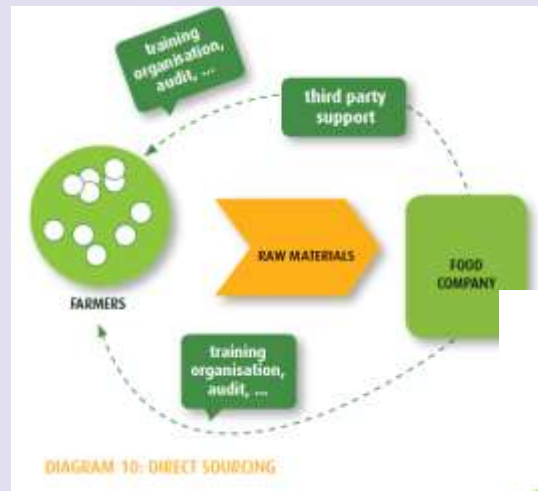
Figure 4.1: Key questions to guide decisions on sourcing strategy timing and options

Question type	KEY QUESTIONS			
	WEAK CASE FOR EARLY ATTENTION		RESPONSE SPECTRUM	STRONG CASE FOR EARLY ATTENTION
Nature of the agri commodity	Small	←	1 Proportion of the total cost base that the agri commodity represents	→ Large
	Many	←	2 Diversity of origins of agri commodity and number of players trading in that commodity	→ Few
	Limited	←	3 Contribution of agri commodity to end-product quality	→ Significant
Internal company considerations	Limited	←	4 Scale of opportunity to gain market share or improve margin	→ Considerable
	Strong	←	5 Relative market power - the ability to dictate terms in negotiations with suppliers and customers	→ Weak
	Strong	←	6 Strength of the balance sheet	→ Weak
	Ample	←	7 Inherent flexibility	→ Limited
External market conditions	Mature	←	8 Stage of market development and associated risk-management tools	→ Immature
	Few	←	9 Prevalence of external supply risks (government intervention, production risks)	→ Many
	Weak	←	10 Strength of demand for agri commodities	→ Strong

Source: Rabobank, 2011

There are many ways to shape 'sustainable' supply chains

- What requirement/standard do I choose?
 - best practice or external/internal standard?
 - multi-stakeholder endorsed sustainability standard?
 - Take the lead in setting a sustainability standard?
- How do I influence sustainability at farm level?
 - direct sourcing + engagement at farm level?
 - as food producer?
 - as retailer?
 - with active support by local experts, NGOs, certifiers?
 - sourcing through suppliers?
 - anonymous sourcing + certified inputs, etc.
- What model I choose, depends on the specific business case (previous slides)

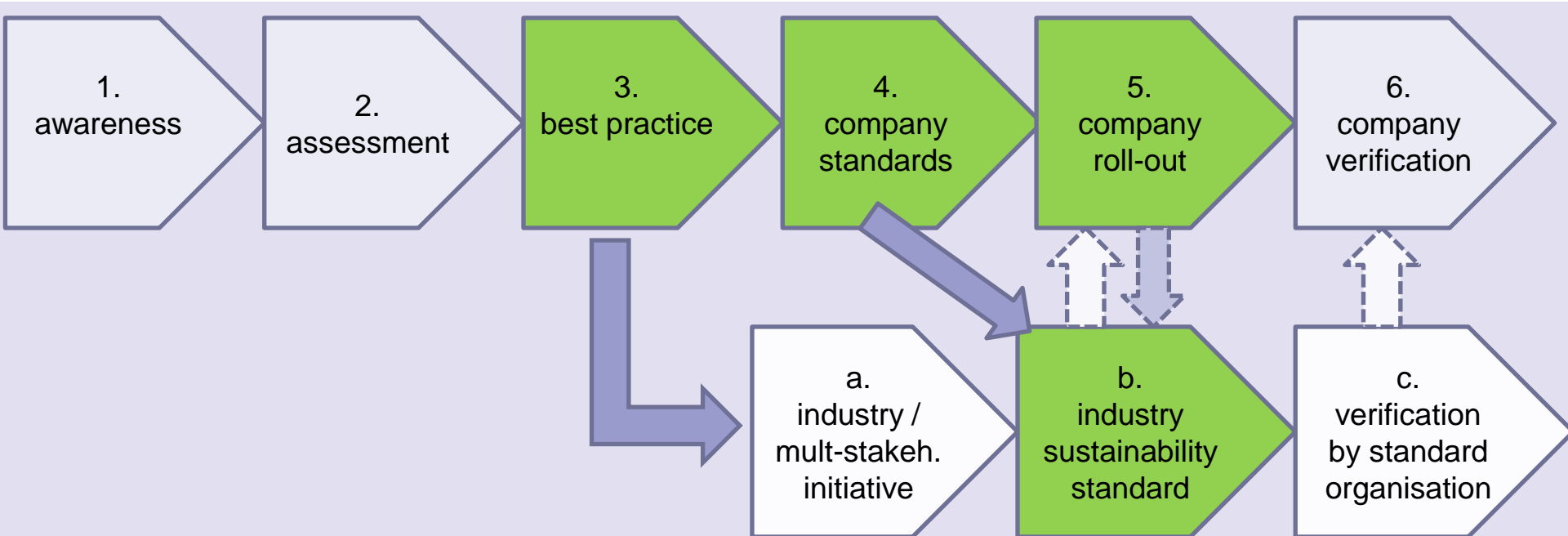


What companies are interested in 'inclusive' cooperation with farmers?

- Main driver = quality and supply security (in non-commodity or fresh produce markets)
 - example 1: high coffee and cocoa qualities
 - cocoa: declining farmer knowledge → declining quality
 - need for re-vitalising cocoa farming community
 - solving quality and human rights issues (child labour) on a common basis!
 - interesting: retail company Tchibo (D) directly involved in sustainable coffee farming projects. No good coffee available on spot markets.
 - example 2: fresh dairy supply chains
 - only well-trained, well-paid farmers can deliver the quality and supply security needed
 - markets with relatively high supplier power
 - not obvious for commodity markets (sugar, palm oil, soya, ...).



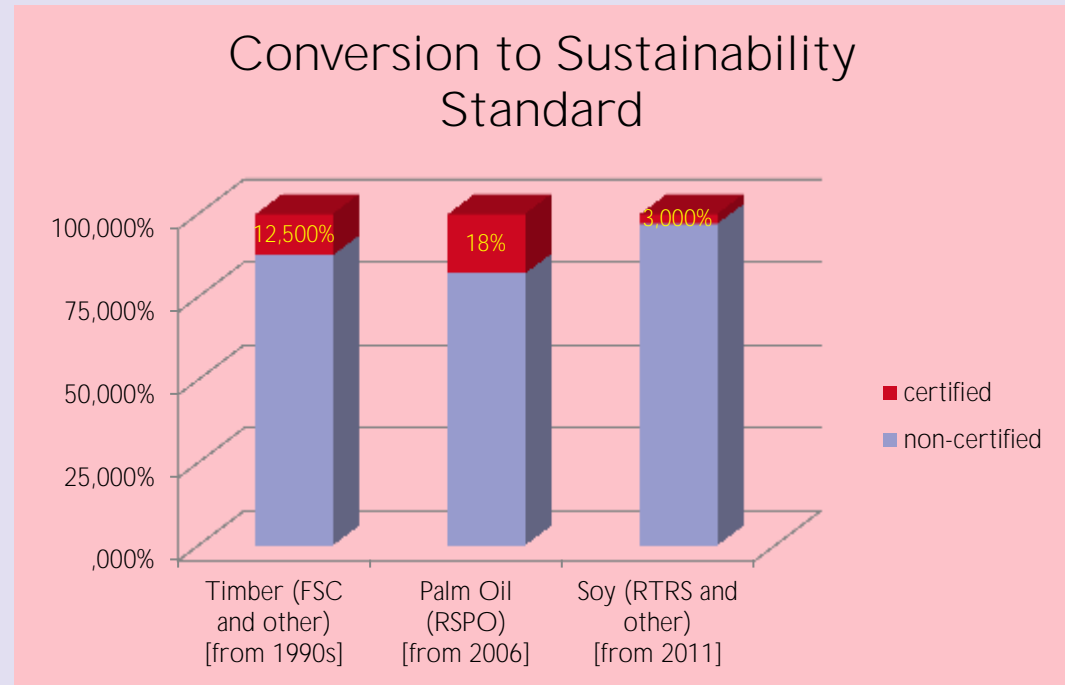
How well have companies in the sector progressed?



- Leaders are at stage 4-6
- Followers are between 3 and 5 (mainly through a, b)
- Global market conversion, however, is limited (next slide)

Practice: Limited Market Transformation (2014)

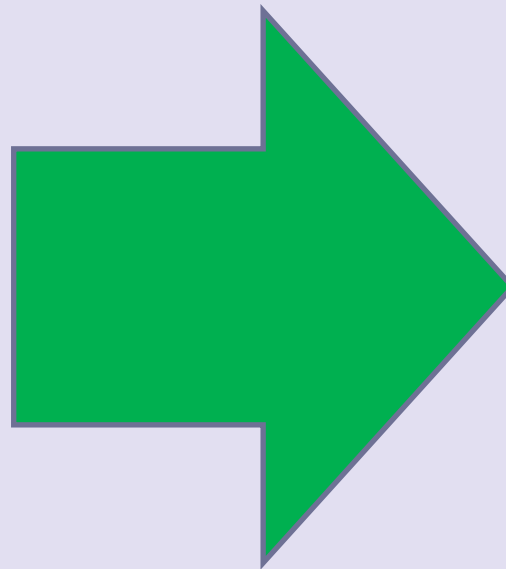
- Market transformation on the basis of voluntary private sector standards beyond 20% is unlikely.



How well is sustainable sourcing embedded in the company structure?

Sustainable Sourcing as Add-on

- Responsibility with CSR or Communications people
- Located in corporate staff department
- Emphasis on reputation and brand value, often project-based
- Protecting operations against outside pressure



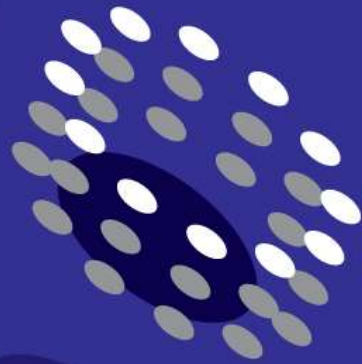
Sustainable Sourcing as Part of Operations

- Responsibility with Sourcing (Buying, Procurement, ...) managers
- with strong top management support: job definition, resources, reward systems, ...
- Focus on mainstream operations, not just projects
- Emphasis on supply security and quality issues

Three potential pitfalls for VECO's strategy

- Assuming that there is always a win-win solution
 - there are often solutions available that are both good for business, contribute to development and protect the environment.
 - but do not forget that there are huge conflicts, too!
- Assuming that what works in our best practice example, will work for other companies
 - unfortunately, there are hardly any companies for which, for example, the Unilever experience can be duplicated.
 - The most successful examples are not necessarily up-scalable towards sector solutions.
- Assuming that private sector initiatives and private sector initiated standards can do the job alone
 - they are a welcome beginning of developing sustainable business, certainly not the end.
 - the next step will necessarily include public policies and stronger regulation.





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