

2 ■ The Business Case for Engagement

2.1 The Need for Sustainable Food & Beverage Production

“Depletion of natural resources and problems faced by rural communities affect agricultural productivity. Ensuring sustainable agricultural practices is in the interest of the entire food chain, from producers to consumers. And it is of urgent concern as global caloric consumption is set to double in the coming 25 years, which will require producing two to three times more agricultural products on the same amount of cultivated land.” – Nestlé⁷

Embedded in Nestlé’s motivations for investing in agricultural regions are inter-related economic and environmental interests. In fact, most cases profiled in this report feature joint agendas: finding new ways to create and share wealth while diminishing adverse impacts on nature.

Major firms in the industry are concerned about maintaining access to quality foodstuffs despite potential – often man-made – disruptions to their supply chains. These include population growth encroaching on agricultural lands, increasing water scarcity and pollution, climate change resulting in increased frequency and severity of droughts and floods, and the spread of infectious diseases affecting plants, pollinating insects, and human beings. In the context of degrading environments, the poor are particularly affected as they possess fewer resources with which to react or adapt to changing conditions. Global consumers, in turn, are increasingly willing to pay premiums for safe, organic, and sustainable products that address their health concerns, as well as their interests in preserving the environment and fighting poverty. In this equation, however summarily depicted here, lies the opportunity for large companies to anticipate the needs of consumers, improve lives, and mitigate the environmental footprint of their industry.

2.2 Improving Global Supply Chains

With this outlook, food & beverage companies are naturally turning their attention to the state of agricultural supply chains, particularly around crops in high demand internationally, originating from poorer countries, based on highly fragmented production, with farmers struggling to keep up with rising standards of production in terms of both farming practices and product quality.

2.2.1 Securing the Supply Chain

The crops featured in our examples have transformational potential in both environmental and economic terms. They include premium coffee that can be grown under forest cover rather than through slash-and-burn practices, and new, biodiversity-friendly native crops developed as better alternatives to existing raw materials. The initiatives surrounding these crops empower farming communities to raise production standards while

offering different levels of guarantee on product uptake. They allow participating companies to count on access to highly traceable food materials at needed quality, quantity, and price levels, and to be sure that they are not associated with environmental degradation.

Supply chain security can also be achieved more indirectly, as Nestlé is showing in Pakistan. While it has a long history of working with farmers to improve milk production standards, the company is finding another way to promote both economic activity and better food standards. Instead of training farmers directly, Nestlé agronomists, with the support of United Nations Development Programme (UNDP) and the Government of Pakistan, are developing a cohort of women entrepreneurs empowered to sell animal healthcare services to their Punjabi farm communities. Better livestock health ultimately translates into improved supply conditions for Nestlé and other local buyers.

2.2.2 Developing Alternative and Innovative Food Content

Faced with growing concern about the impact of palm oil, Unilever is banking on Allanblackia (AB) oil as a long-term substitute in the production of low-cholesterol margarine. The company's extensive research on the properties of AB oil puts it in a unique position to take advantage of this new biodiversity-friendly and income-generating crop. Because the initiative does not build from an existing base of agricultural activity, it requires a multi-year commitment. As Unilever's Harrie Hendrickx states, the company plans to "bring the volumes to a level where economies of scale reduce cost and make the whole project sustainable. Then, with a new raw material established, hundreds of thousands of farmers in Africa can earn a decent living from it."

2.2.3 Meeting Demand for Sustainable Products

Trading companies positioned between growers and food manufacturers are also promoting sustainable agricultural practices. One incentive is to avoid disintermediation by global companies creating direct linkages with the poor in order to offer a "responsible" value proposition to consumers. ECOM, one such trading company, is helping hundreds of coffee producers in Honduras achieve certification for responsible coffee production and sourcing, resulting in both economic gains and wider quality of life improvements in grower communities.

In some cases, companies are taking the responsible or sustainable value proposition all the way to consumers to achieve a "values premium" that goes beyond quality or safety guarantees. This includes additional efforts by lead companies and partners to gain exclusive access to crops, and to brand products on the basis of their benefits to communities and to nature. Starbucks' Conservation Coffee Alliance falls under this logic: its intervention transformed coffee production in Chiapas in Mexico, where the company is now purchasing more than 50 containers or approximately 2 million pounds of high-grade coffee annually, an increase of 48 containers from when the program first began. Together with a number of other social and environmental efforts, the objective is to position the company as responsible and maintain a positive image in a fiercely quality- and experience-conscious coffee shop industry.

2.3 Developing Local Food & Beverage Markets

While global companies might first focus on export-based opportunities, a number of examples also emphasize efforts to build local food & beverage value chains. In each of the cases, companies are addressing immediate or anticipated constraints to growing domestic versions of their business models. As Danone testifies, even if designed primarily as social investments, these initiatives stretch companies to innovate and develop completely new business models that rely less heavily on costly technologies, without sacrificing product integrity. Such initiatives may focus upstream on supply conditions and food processing or include distribution and consumer marketing. They create a greater diversity of jobs than do models associated with production for export, where employment is concentrated in farming.

2.3.1 Improving Access to Local Foodstuffs

SABMiller and Cargill are focused upstream with their initiative in Rajasthan in India to improve barley production and satisfy domestic brewing needs. A key incentive is to raise local standards sufficiently to lower the companies' dependence on international supplies of quality barley for malt production. The program is currently working in 150 villages spread through three districts of Rajasthan. The goal is to purchase up to 10,000 tons of high-grade barley locally.

Reliance India is also dependent on improving local food production. The Indian conglomerate, traditionally active in petrochemicals, is now building a chain of retail stores that will cover 1,500 sites in India. To supply its new stores, Reliance is in great need of quality produce. Farming in India, however, is highly fragmented and subject to hard climactic conditions: once harvested, it is very difficult to keep fruit and vegetables fresh under extreme temperatures. Reliance has therefore developed a network of collection centers located close to farmers. These have reduced spoilage of crops to 5% from an average of 30% and eased handling charges paid by farmers to middlemen by 50%. The plan now is to expand the model with Rural Business Hubs which, in addition to being trading centers, will provide agricultural education to improve farm yields and environmental practices. The hubs will also offer health services, shopping, and even entertainment.

2.3.2 Improving Distribution

Coca-Cola Sabco (CCS) is a key bottler for Coca-Cola in East and South Africa and Asia. In 2002, CCS faced distribution difficulties as a result of poor infrastructure in East Africa, where traditional methods of distribution were costly and ineffective. To address these issues, CCS designed an innovative system of Manual Distribution Centers (MDCs) that build its distribution network through small-scale enterprises. These enterprises employ eight to 10 people each and sell Coca-Cola to retail outlets within geographic radii of about 1.5 kilometers. MDC owners and staff are trained in basic principles of business, such as profit and cash flow management, customer service, optimal warehouse management, and marketing. They are also offered non-business training, for instance in HIV/AIDS awareness. Currently, there are 380 MDCs in Kenya alone, generating \$100 million in revenue annually, employing approximately 4,000 people, and supporting families of approximately 16,000 people.

2.3.3 Building a Culture of (Social) Innovation

Danone Grameen's joint venture in Bangladesh to produce and market yogurt in poor communities covers the entire food & beverage value chain, including upstream and downstream activities. The initiative covers the development of micro-farms for quality milk production, manufacturing using a novel process that emphasizes labor over technology, and door-to-door distribution by "Grameen Ladies." In fact, the venture goes beyond creating economic opportunity to addressing nutritional deficiencies in children, in line with Danone's mission "to bring health through food to a majority of people." While the first factory employs 30 people recruited and trained from the community, the development of micro-farms and distribution agents will employ up to 1,000 people. The initiative foresees establishing up to 50 such value chains across Bangladesh, which means employment and economic opportunity on a vast scale. Most importantly, it infuses Danone with a spirit of social innovation that challenges legacy business models.