



SUSTAINABLE SOURCING  
OF **AGRICULTURAL RAW MATERIALS**  
**A PRACTITIONER'S GUIDE**



**With support from**



# Sustainable Sourcing of Agricultural Raw Materials a Practitioner's Guide

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# Sustainable Sourcing of Agricultural Raw Materials – a Practitioner’s Guide

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## Foreword

Today more than ever, society needs committed and creative leaders and leading organisations to promote a world in which economic development can be attained for the benefit of all while conserving the planet's natural capital and improving people's living conditions. Whilst the challenges for the 21st century of providing good standards of living for 7 billion people without depleting the earth's resources are formidable, there are also significant associated opportunities.

Sustainable development provides the ideal framework to build a society where economic, ecological and societal aims are in balance. This framework requires that we assign economic value to the use of environmental services and to biodiversity. Business is extremely well positioned to play an active role in addressing these issues. A sustainable approach to business success means understanding and respecting the ecological rational of using inputs for the food and beverage industry, such as water, agricultural products, land and energy. It is paramount to adopt a long-term sustainability approach to the world's challenges. In fact, integrating and mainstreaming sustainability considerations in the business is destined to become the only way of doing business into the future.

Some might argue today that growth and sustainability are in conflict. However, some daring companies are leading the way and have contributed their knowledge to prove the contrary. This guide is a testimony that includes such leading initiatives. The survival and growth of many companies will depend largely on decoupling growth from environmental footprint, while increasing positive social impact. We need to aim for sustainable, equitable growth, and to accept the fact that sustainability can actually drive growth.

Strategic innovation for sustainability, that is innovation that takes account of longer-term sustainability considerations, is the answer for long-term business success and for building a sustainable society. By looking at product development, sourcing and manufacturing with a sustainability filter, there are opportunities, not only for cost reduction, but also for innovation. Sustainable agricultural sourcing is part of this framework and for this reason, many important organisations concerned with this issue have come together to publish this guide. This fact is in itself very encouraging. However, while a lot of work has already been done in this area (contributing to what is documented in this guide), much remains to be done.

This guide is a testimony of the commitment of leading companies towards sustainability. It shows that society needs the collective knowledge of all players. No single company can achieve a fully sustainable agricultural sourcing program on its own. This document represents an invitation for other companies to adopt sustainability at the core of their business strategies, and to build on what others have achieved so far. In reading the guide, it becomes apparent that for a sustainable future, the needs of citizens and communities must in future carry the same weight as the demands of shareholders. In using the guide, managers will understand how to exploit the business case for sustainable agricultural sourcing, and the processes necessary for more sustainable sourcing solutions into the future.

**Professor Francisco Szekely, IMD Sandoz Chair for Sustainability Leadership and Director of IMD's Global Center for Sustainability Leadership**

## Executive Summary

This Guide is a reference manual for companies seeking to source their agricultural raw materials sustainably. It is intended for any food and beverage company buying its raw materials from farmers and farmer organisations directly, or indirectly through supplier companies.

It describes every step of the process of a company's sustainable sourcing strategy development and implementation, and contains suggestions, advice and concrete examples for each of those steps. That being said, there is no need to read it from cover to cover. The order of the different chapters is not necessarily the order in which you need to address issues in your firm. You may choose your own entry points, according to your needs.

There are substantial differences amongst companies between organisational cultures, structures, decision making processes, markets, product portfolios, consumer markets and much more. For that reason, this guide is built around questions that will be answered differently by various firms and even by different parts of the same firm. It also provides real-life examples, taken from very diverse organisations, showing how companies have successfully tackled certain issues. These are meant to inspire managers find solutions for their own companies as, throughout the document, we stress that solutions in one company will not necessarily work in another.

Chapter 1, Sustainable Sourcing as Leadership and Value Creation gives a general background on the strategic importance and the strategic conditions to successfully implement sustainable sourcing in a firm. It links our specific topic ('sustainable sourcing') to general strategic issues, the business context, the importance of stakeholder pressure and value drivers.

Chapter 2, Implementing Sustainable Sourcing – Decisions to be Made gives a short overview of the different aspects that are the basis for chapters 4 to 8 in the guide, which deal with the process of implementing a sustainable sourcing strategy. In reality, decisions may develop in a different order than the one proposed, or parallel to each other.

Chapter 3, Setting Priorities for your Company's inputs from Agriculture proposes a number of questions to ask before developing sustainable sourcing in great detail. The first step is to set priorities (priority raw materials, priority countries, priority issues, etc.) and to

base a consistent sustainable sourcing programme on them.

Chapter 4, Choosing Appropriate Sustainability Requirements describes the next step, which is to define the level of sustainability you want to achieve for specific agricultural raw materials: what sustainability criteria and minimum requirements. What role internally or externally defined standards may or may not play is also discussed in this chapter.

Chapter 5, Implementing Sustainability Standards in your Company's Supply Chain focuses on how to implement your sustainable sourcing ambitions. Of course, the steps needed for implementation are strongly dependent on the character of the supply chains. Direct sourcing is different from sourcing through suppliers or from commodity markets. There may be a need to redesign supply chains for the sake of sustainability. In the case of direct sourcing, implementation may require your company to be active in supporting farmers, possibly in cooperation with other companies sourcing from the same



area. This chapter also addresses questions around monitoring implementation and certification. It does not give a binding advice on whether to seek certification or not, but provides a number of questions that you may want to ask before making a decision. The chapter concludes by looking at the relevance of impact assessment.

Chapters 6 and 7 describe the changes required in your firm’s business processes to

achieve sustainable sourcing, both internally and externally; and how to communicate the company’s sourcing efforts to the outer world. Actual or new managers will notably be required to acquire new skills, including the management of new relationships with suppliers and farmers. It will be probably also be necessary to adapt the reward systems for managers and assess the allocation of resources for rolling out a sustainable sourcing strategy.

This Guide on the Sustainable Sourcing of Agricultural Raw Materials is the result of a cooperative effort by SAI Platform, IDH, ITC and IMD’s Corporate Sustainability Leadership Platform. It was also supported by BSR, Sedex and the Sustainable Food Lab (SFL).





## 1. Sustainable Sourcing as Leadership and Value Creation

Whilst it is not “rocket science” to work out that there are limits to growth on a finite planet, most managers face pressure every day to respond to a growth oriented business model. This is because the objective of “creating shareholder value” is, in many companies today, an almost exclusive mantra. To create shareholder value, managers are put under ever-increasing pressure to meet their firm’s economic objectives in the short term and report these gains on a quarterly basis. Managers also receive incentives to focus on these immediate gains. Short-termism therefore pervades our business thinking, often to the detriment of longer-term social and environmental considerations. Firms do this at their own peril, since by focusing purely on short-term financial objectives, they may actually be putting the long-term financial sustainability of their business at risk.

Aware of significant looming tensions across a number of key systems that threaten business into the long-term, an emerging vision amongst leading companies a more expanded concept of “creating shared value”, that is, the idea of addressing environmental and social problems in ways that expand the pie for more market participants.

### **1. Nestlé: Creating shared value to assure food security and sustainable sourcing**

For business to be successful long-term, [Nestlé](#) believes that it must create value not only for shareholders, but also for society. This includes farmers who supply raw materials, but also employees, consumers and local communities. Nestlé refers to this as “Creating Shared Value” or CSV. In its core strategy, Nestlé strives towards CSV by focusing efforts in three key areas: nutrition, water and rural development.

Although Nestlé is not vertically integrated (owning agricultural land), it has rolled out a substantial program to help supplier farmers to become more productive and avoid poverty. Nearly 600,000 farmers, including many women, can access free technical assistance and microcredit to help them produce greater yields of higher quality crops while saving water resources, reducing impact on the environment, and increasing their overall income. In this way, multiple rural areas benefit from wider employment and further economic development opportunities.

There are many stakeholders implicated in the area of food security. Convinced that it cannot achieve food security worldwide on its own, Nestlé is increasingly working with government, NGOs, the Food & Agriculture Organization, agricultural institutes and farmer’s organizations to address some of the serious and basic problems posed by the challenge of feeding 10 billion people by 2050.

See [www.creatingsharedvalue.org](http://www.creatingsharedvalue.org) for more information

There are good reasons for this shift in business thinking. Firms simply cannot do business on a failing planet. Our global society is at a critical tipping point. On the one hand, there has been extraordinary economic progress and innovation leading to ground-breaking technological solutions to some of the world’s biggest problems. On the other hand, there are regions in the world that are unable to benefit from such progress owing to severe megatrends affecting their capacity for resilience.

Here are some of the issues pertaining to resources that may ultimately also affect supply of agricultural raw materials:

**Population:**

Demographic pressure: Population growth rate and density, as well as availability of agricultural land per capita;

Education: Availability of skills and human capital, including women's access to education;

Employment: Levels of unemployment, particularly the youth, in a given country;

**Land:**

Deforestation: Loss of forest cover and biodiversity due to development and monoculture;

Degradation: Erosion of the resilience and fertility of the land owing to soil erosion, salinity and deforestation;

Institutional weakness: Ability of governments in a given country to formulate and adequately implement policies as well as the human rights and liberties of its citizens;

Tenure: Lack of institutional security around land rights;

**Water:**

Availability: 70 percent of the world's water is used in agricultural production, threatening the continuous availability of water resources in a country for all users;

Quality: Contribution of agriculture to levels of water quality and of pollution in a given area of operation;

**Food:**

Scarcity: Food availability to meet the needs of the population in the area of operation, through own production and/or importation (including the level of reliance on imports);

Affordability: Ability of poor households in the country of production to purchase the food they need locally;

Nutrition gap: Access to safe and nutritious food;

**Climate:**

Resilience: Capacity of a given country (infrastructure, food, water, health systems as well as its ecosystems) to cope with adverse changes in weather, and related risk of human losses.

**Energy:**

Accessibility: Local people's access to electricity and power and a country's ability to meet its energy needs through domestic production or imports;

**Fiscal:**

Price volatility: Increases in consumer prices, or increases/decreases in commodity prices;

Inflation: Decline in purchasing power;

Instability: Management of the public debt and potential for financial crisis;

Every day global demand for food increases while growth in agricultural productivity decreases. Given global demographics and the move of transition countries to Western-type consumer lifestyles, ever-increasing pressure is being put on the planet's natural resources.

Of course, an increase in numbers of consumers means that companies have an opportunity for new markets. However, how do we ensure that resources will be available in the future to cater for this

rising demand? How do we create more from less, more and better food using the same land surface for substantially more people?

Put simply, the equation is this: **no supply=no business**. Companies need to build their brands, retain their competitiveness, and manage risks by looking after their resource base. Hence there is a critical need to address sustainability issues in sourcing raw materials.

## 1.1 Developing a sustainable sourcing strategy: Getting the Basics Right

The most fundamental piece of the jigsaw to have in place before you start, is to ensure that you have Board and Senior Management buy-in to building a relationship between your sustainable sourcing activities and the core business strategy. In fact the best question you must ask yourself before and during the development and embedding of your strategy is:

Does your sustainable sourcing strategy support your company's core business strategy?

The answer is not always straightforward. Often, the business case for sustainable sourcing is neither well developed nor formulated by executives in a way that others understand it. Managers tend to concentrate more on “how” to manage the on-going challenges with which they are confronted. And although the rest of this guide is certainly about the “how”, developing and continuously revisiting the economic logic described in this chapter will:

- strengthen and structure your case for sustainable sourcing;
- facilitate feedback to your senior management as you develop and implement your strategic agenda;
- enable you to talk confidently to people in your organization about your task;
- convince others to come on board with your strategy, effectively converting key functional executives into “ambassadors” to support you in reaching your objectives.

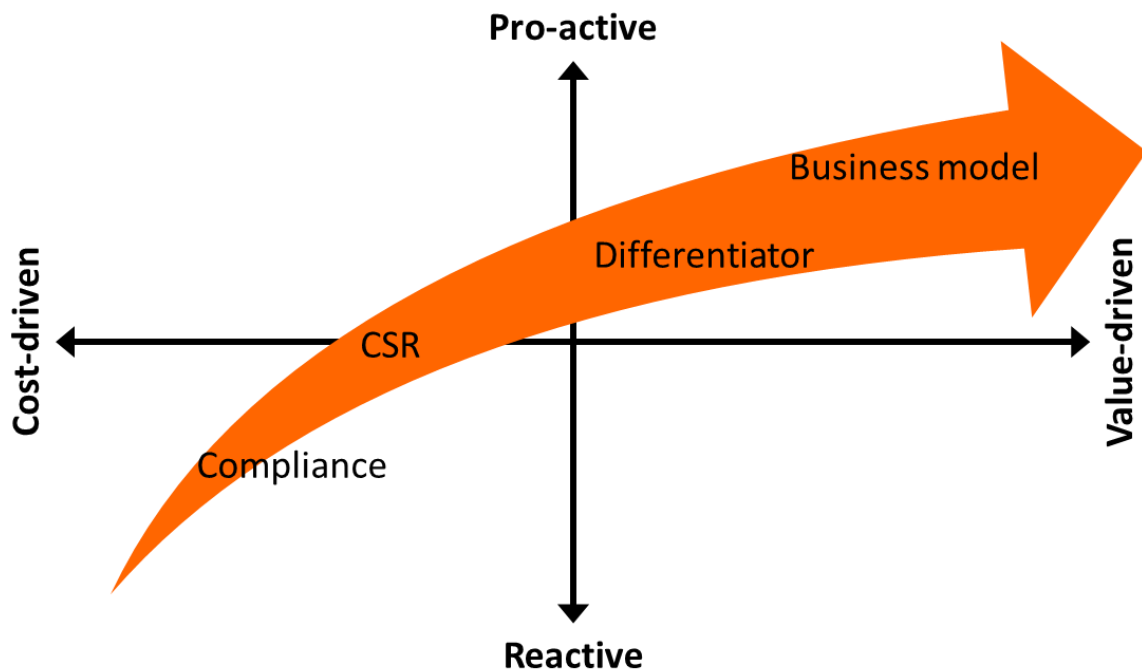
You will thus need to define – as with every strategy, the vision you have for your sustainable sourcing strategy. For example “Leading in sustainable supply” might be your vision and “Providing optimum service to our internal and external customers at best cost through cross functional cooperation” your expanded mission. Whatever you do, your vision and mission will need to be purpose built for your own organisation.

## 1.2 Building the Case for your Sustainable Sourcing Strategy

Some companies aspire to be leaders in this area of sustainable sourcing but others may have only a foot on the first step of the ladder. Whatever the case, it is important to be clear about where you want to play as a company before you start, and thus develop a strategy that fits that specific level of ambition.

For example, companies may actually decide not to play a leadership role but to be either early or late adopters. They may even decide to only move when forced by regulation. How they decide where to play will depend on factors related to risks and opportunities involved in taking action, such as level of threat around the resource, their clients' demands and market drivers (does the market demand or

reward sustainability?), their governance (whether public or private), their competitor’s behaviour, level of stakeholder pressure and senior leadership’s vision and values.

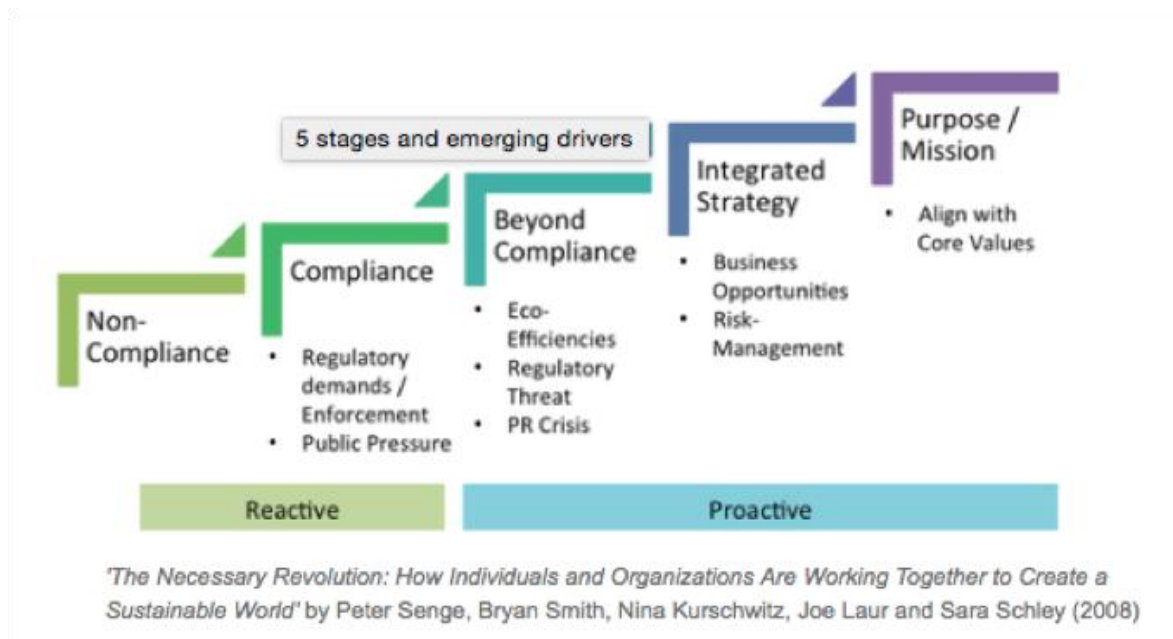


**Diagram 1: Where to play? Copyright Christof Walter Consulting 2012, all rights reserved.**

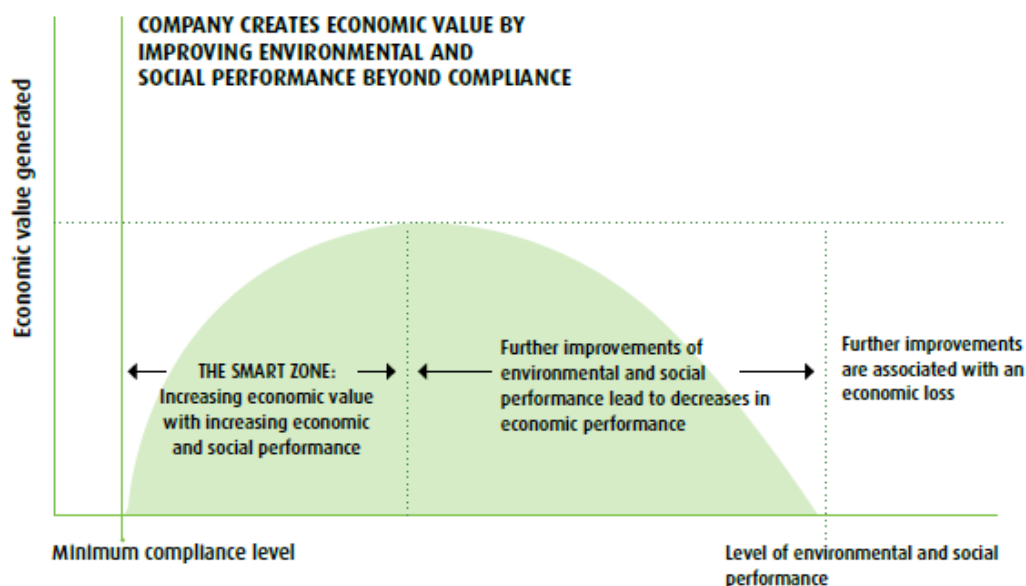
The above figure maps some strategies depending on whether the underlying driver is mainly cost avoidance or creating value; and whether the company approaches sustainability in a more reactive or proactive way. The size of the orange arrow indicates the extent to which sustainability is integral to each position. The point is that companies should take a conscious decision about which position is most appropriate for them, depending on the above-mentioned factors. In general, companies tend to position themselves in one of four arenas:

- Companies seeing sustainability as compliance will typically take an assurance approach and will concentrate on regulated issues like food safety, labour standards and statutory reporting to investors.
- Companies viewing sustainability as corporate social responsibility (CSR) typically aim at demonstrating to shareholders and the public that the company does all it should (due diligence), within its current business model (licence to operate).
- Companies using sustainability as a brand differentiator actively employ sustainability credentials to support their brand (the corporate brand or that of individual products).
- Companies adopting sustainability as a business model make sustainability not only an integral part of how they operate but understand it both as a pre-condition and business strategy for creating value and growth.

It is also beneficial if you see the company’s approach as dynamic; that is, that whatever your positioning is, you are on an incremental path towards an increasingly proactive role in assuring sustainable sourcing of your agricultural raw materials. The diagram below, developed by Peter Senge is self-explanatory in this respect.



Whatever strategic approach you choose, and looking at it from a business and economic logic perspective, you will still need to find the place for sustainable sourcing of agricultural raw materials within your company's "Smart Zone". What do we mean by that? In the graphic below, you see the correlation between sustainability and economic performance. Note that at the start of the curve in the diagram, we are in an area of activity beyond compliance where social, environmental and economic value is being harvested. Initially, as companies exploit what we often call the "low-hanging fruits", economic, environmental and social performance all increase at a good rate of return on investment (ROI).



**Diagram 2: The Smart Zone**

"Steger, U. Ed. (2004), The Business of Sustainability: Building industry cases for corporate sustainability, Palgrave Macmillan, UK, Page 8"



Moving along the curve, the company will reach a zone where the ROI pay back starts to decrease if further voluntary environmental and social improvements are carried out. Here, building the business case logic can get more demanding. Allocating capital and resources to projects that are not as profitable as other competing projects within the firm then becomes much more of a challenge. In an ideal world where benefits are truly quantifiable, corporate decision-makers will weigh up the benefits and drawbacks of each and every project brought to their attention. Therefore the business case for sustainable sourcing must draw on as many economic arguments as possible in order to hardwire it. This will make it robust and capable of being sustained as long as possible before the inevitable crossover point is reached where the investment simply becomes pure philanthropy. The business logic argument must include both quantifiable and qualitative or non-quantifiable arguments. Part of the art of building business cases is to not only convincingly demonstrate the financially positive but also the non-quantifiable benefits. Example 2 just below about Revitalising [Lipton](#) brand provides an excellent example of how managers built a business case for a sustainable sourcing activity around tea.

## 2. Revitalising the Lipton Brand

Starting in 2005, [Unilever](#) set an ambitious objective to make Lipton brand 100 per cent environmentally and socially sustainable, as well as to convert other tea brands such as PG Tips.

How did Unilever build the business case for this significant move? The company carried out a brand imprint exercise to fuel brand innovation and create competitive advantage by integrating social, economic and environmental considerations to the Lipton brand. The exercise, involving brand developers, supply managers, corporate responsibility executives and Unilever managers from diverse functions, helped Unilever to conclude that sustainability could be an excellent attribute enabling the company to engage in a positive dialogue with consumers and harvest enhanced brand value.

Market research was also showing that sustainability was a growing concern of consumers in key markets and that it could potentially be turned into an effective differentiator factor when effectively communicated to consumers.

To retain credibility with consumers, Unilever opted to have the tea plantations they used for their brands independently certified. They sought a partner to provide third-party certification using the following assessment criteria: recognition by consumers, capacity and flexibility to certify large and small suppliers, ability to work with local organizations to train employees, and ability to recruit and train teams of regional auditors. Unilever chose the [Rainforest Alliance \(RA\)](#), a US-based international non-governmental organization with a mission of conserving biodiversity and ensuring sustainable livelihoods. RA certification requires standards to be met in the areas of worker welfare, farm management and environmental protection.

Top decision-makers at Unilever raised questions about how costly this exercise would be, how quickly the conversion could be carried out, and what Lipton expected to get in return on the income side. For example, how could Unilever pay a premium to growers for sustainable tea while keeping the retail price unchanged? If consumers were not ready to pay more for sustainable tea, did this mean that the additional cost would need to be absorbed in the margin, thus reducing profitability? The solution lay in the predicted growth in market share: additional supply chain costs could be recovered through that growth.

Unilever publicly announced two ambitious targets that would ultimately impact world tea markets: 1) Lipton Yellow Label and PG Tips tea bags sold in western Europe would be certified sustainable by 2010, and 2) all Lipton tea sold globally would be certified by 2015.

The partners decided to start with the “lower hanging fruits”. In Kenya, some of the bigger suppliers already had relatively good sustainability standards in place. This enabled rapid certification of some large tea estates. However, working with smallholders in other countries was a greater challenge, primarily due to differing levels of complexity. This ruled out a “one size fits all” approach. Supply bases were often fragmented. Legal frameworks varied considerably. The partners adapted their approach according to different contexts, but also developed a support network of local partnerships with experienced organizations. For example, in Argentina they teamed up with Imaflores, a local not-for-profit promoting conservation. Imaflores helped them build the capacity of some 6,500 loosely organized farmers to apply best practice in agriculture, something that previously they had no knowledge of.

As soon as certified Lipton tea started to appear on shop shelves in Europe, Unilever kicked off its consumer campaigns. With an established link between this mainstream brand and certified sustainable tea, marketing managers observed an increase in both sales and market share. The certified brand appealed to new constituencies of consumers – for example, in Italy, it attracted younger customers. Enthusiastic about the first market signals, Unilever teams in Japan, Australia and the US introduced the certified brand ahead of schedule, thus accelerating market expansion.

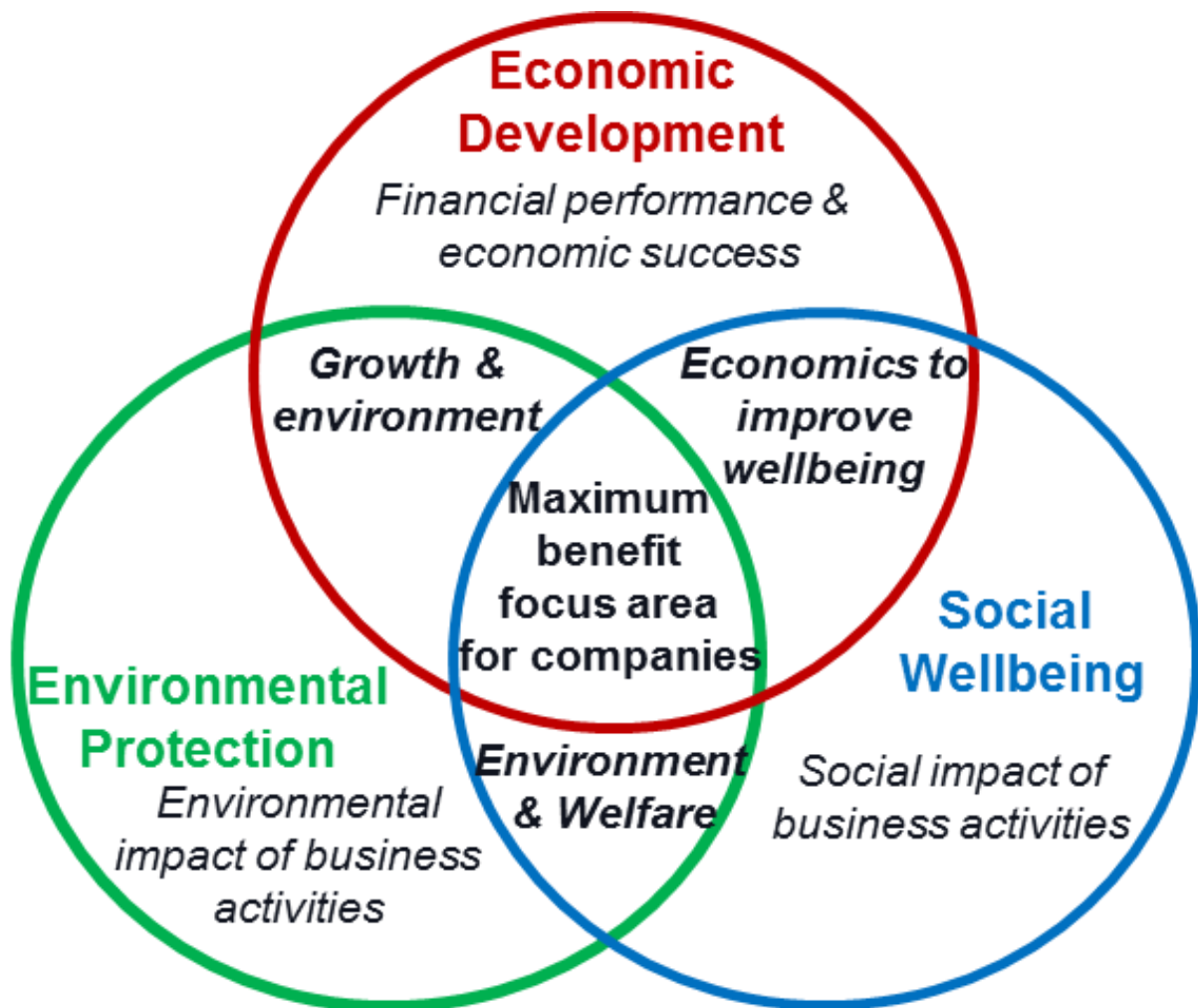
The [Ethical Tea Partnership \(ETP\)](#) and the RA decided to collaborate in 2009, further building

industry capacity to handle certified sustainable production. A domino effect took hold as other tea producers began to certify their own brands and there was a surge in demand for certified sustainable tea.

Unilever learned that, while the initiative they had undertaken was challenging, identifying the right partners and adapting to local contexts are vital success factors. Moreover, Unilever showed that implementing a mainstream sustainability initiative is possible, while also reaping financial and reputational benefits.

Source: Ionescu-Somers, A, Braga, T., & Seifert, R., *Unilever Sustainable Tea Part 1 Leapfrogging to Mainstream* **and** *Unilever Sustainable Tea Part 2, Reaching out to smallholders*, <http://www.idhsustainabletrade.com/idh-publications>

Overall, firms will seek to find the maximum benefit focus area (see the graphic below) that will ensure optimum financial performance and economic success, whilst reducing the environmental impact of their business activities and increasing the positive impact on social well-being. The activity of sourcing agricultural raw materials lends itself particularly well to achieving all three objectives if it carried out in a strategic and well planned way.



### 1.3 Stakeholder Pressure

Taking the [Lipton Tea](#) case cited above as an example, the firm's competitive context already gives a sense of the importance of the firm's stakeholders in helping to formulate a business case for sustainable sourcing. Deriving a sustainability strategy that guarantees a competitive advantage means that you have to do your homework first. Who can help?

Your stakeholders can. In fact, stakeholders act as an effective motivational factor since through their actions, they put sustainability issues on the radar screen of companies. Shareholder and public activism are increasingly pushing for more transparency and action on key sustainability issues. In a highly networked and global social media driven communications context, risks to corporate reputation through negative media exposure are greater than ever before. Governments and regulators are increasing regulations (for example, around carbon emissions, pollution, and child labour) and imposing more sustainability standards. Shifting consumer demands are evident through a growing base of consumers that are demanding sustainable product options. Overall, sustainability has become a business imperative in several key areas affecting companies: sustainable sourcing of agricultural raw materials is one of them. So here is your next question:

Which stakeholders are pushing sustainability related issues onto your corporate strategic radar screen when it comes to sourcing of agricultural raw materials?

The biggest push for a sustainability sourcing strategy often comes from corporate stakeholders further down the chain of command than the producing farmers; this is because there are specific issues that are of relevance to them. Plotting the issues that come up in each part of the value chain via the stakeholders will ensure that you understand the "red threads" of the sustainability issues that have business relevance because they lead to either risk or opportunity for the firm.

Of course, given corporate growth objectives and the vital need to also provide shareholder value, the company's primary stakeholders (investors, customers, consumers) are the most visible to decision-makers when it comes to any kind of strategic decision-making. However, as a result of the increasing focus on the entire value chain, "second tier" stakeholders are gaining in importance, particularly in recent years as firms are under increasing scrutiny, and as they learn more from their own stakeholders about inherent risks in value chains. Engaging stakeholders can be extremely challenging for firms, however. See Example 3 on how the company [Friesland Campina](#) started to bring a very key stakeholder - the dairy farmer - on board with its sustainability strategy, through a participative, listening process.

### **3. Friesland Campina: Getting Dairy Farmers On board**

Friesland Campina has adopted a co-operative sustainability approach to set a credible standard for responsible dairy farming – so as to ensure responsible dairy farming both at the farm level (compliance, animal welfare, mineral balance, outdoor grazing, assuring biodiversity) and at the processing level (mainly reducing GHG emissions).

Friesland Campina has set a number of ambitious goals to attain by 2020, ranging from the short term to longer term:

- Reduce use of antibiotics to 1999 levels
- Maintain current levels of outdoor grazing
- Comply with legislation for manure phosphates and prevent new legislation
- Achieve 30% reduction of GHGs between 1990 and 2020
- Reduce animal health issues to natural levels
- Achieve 100% responsible soy in cattle feed by 2015
- Recognise the role of the farmer in management/maintenance of the landscape

The firm has implemented measures to attain each objective but the most important of all was to get the dairy farmers on board. This meant adopting an inclusive approach by stimulating and facilitating individual learning and training of the farmers using tools, workshops, “train the trainer” sessions and collaborations (for example, with vets and feed suppliers), while monitoring and measuring the practical use and cost effectiveness of results.

To stimulate innovation, the dairy farmers needed to develop their knowledge, and to learn from each other. They also needed tools to support sustainability at the farm level and to measure the results. A farmer’s intranet was created enabling a knowledge sharing and feedback process. Agreement was also reached on measuring and monitoring of objectives with a standard approach allowing comparisons, comprehensive data collection and giving credibility to the process. Standards were set up for every dairy company and implementation started in 2012.

Friesland Campina’s activities have not only increased accountability of the firm but also of the entire Dutch dairy sector. Today, the sector’s objective is to set the standard for sustainable dairy farming and is inviting all stakeholders to support a similar approach to that of Friesland Campina.

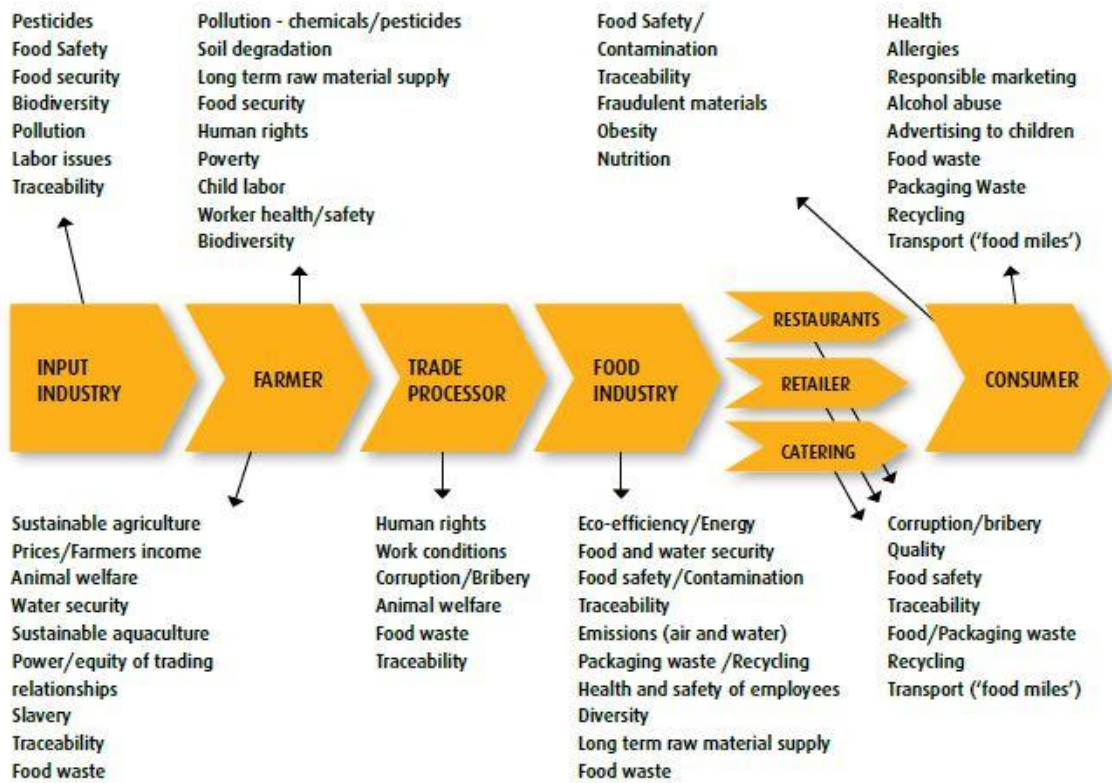
*Source: Friesland Campina company information*

Developing a sustainable sourcing strategy means tackling a myriad of sustainability issues, of an environmental, social and ethical nature.

These are often fragmented within the value chain, making it difficult for managers to assess their scale and impact as well as points of influence. Moreover, the public prominence of issues and the “facts” may seem at odds—different countries and cultures will have different concerns or affinities for technologies or business activities. Business insiders may want to dismiss concerns as unscientific, or idealistic, but these are not necessarily helpful when engaging with pressure groups.



### ISSUES IN THE FOOD AND BEVERAGE INDUSTRY



**DIAGRAM 3: ISSUES IN THE FOOD AND BEVERAGE INDUSTRY**

"Ionescu-Somers, A. and Steger, U. (2008) *Business Logic for Sustainability: A Food and Beverage Industry Perspective*, Palgrave Macmillan, UK, Page 39"

How do you identify the sustainable agriculture (SA) issues that are most relevant in the value chain for the sustainable sourcing of agricultural raw materials? You begin by plotting the issues that are most economically relevant within the value chain. As an example, depending on the raw material you are focusing on, your chart might look similar to this:

	Growing	Buying/trading	Processing	Storing/Transport
Environmental	Land availability		Waste mgmt/disposal	Energy usage
	Inputs/Fertilizers		Deforestation	GHG emissions
	Energy usage		Water usage	
	GHG emissions		Energy usage	
	Water usage		GHG emissions	
	Biodiversity			
	Deforestation			
Social	Child/slave labor		Health & safety	
	Discrimination		Health care programs	
	Health & safety		Employee training	
	Farmer loyalty			
	Community care/education			
	Demographic changes			
Economic	Farmer return (inefficient operations)	Farmer return (fair pricing)	Utility costs	Utility costs
	Farmer return (input costs)	Farmer return (auction fees)	Waste disposal costs	Farmer return (fuel costs)
	Farmer security		Employee succession	Fuel availability and costs
	Access to supply	Employee succession		
	Alternative crop usage			
	Employee succession			

Once a comprehensive list of relevant sustainability issues is established, it is important to prioritize these issues from a strategic standpoint. One way of doing this is to chart the relative economic importance of the issue according to **both 1) long-term financial impact** and **2) reputational/brand value impact**. In order to do this, you need to comprehensively analyse the value drivers that are contributing to converting your investments in sustainable sourcing into value for the firm and its stakeholders.

## 1.4 Value Drivers

Have you identified the value drivers?

Let's discuss value drivers. From everything we have said so far, it is clear that the business need for sustainable sourcing is enhanced by stakeholder pressure to address specific sustainability issues that occur along the food and beverage value chain. Stakeholders help highlight both risks and opportunities for the firm that in turn propel and support the value drivers (see the graphic below) that contribute to shareholder value. Your company is just about to start exploiting those same value drivers in building and rolling out its strategy.

Sustainability initiatives often get stuck in business because they only focus on how to address environmental and social issues. In business, we want to sell more, make more profits, excite and entice customers, lower costs, and manage risks. Sustainability needs to be formulated in the language of business and achieve business goals. Perhaps the difference between "sustainability" and "regular" business is the need to take a longer time horizon and consider more explicitly the needs of others, particularly those who may not ordinarily have voices.

To be business-credible, a sustainable sourcing strategy must not be afraid to call a spade a spade. It is about building supply, creating competitive advantage, and making money. The concept of creating shared value is patently not about redistributing existing value in supply chains, but about creating more value—marketing value, improved quality, supply chain efficiency, increased productivity—that can be shared among supply chain actors.

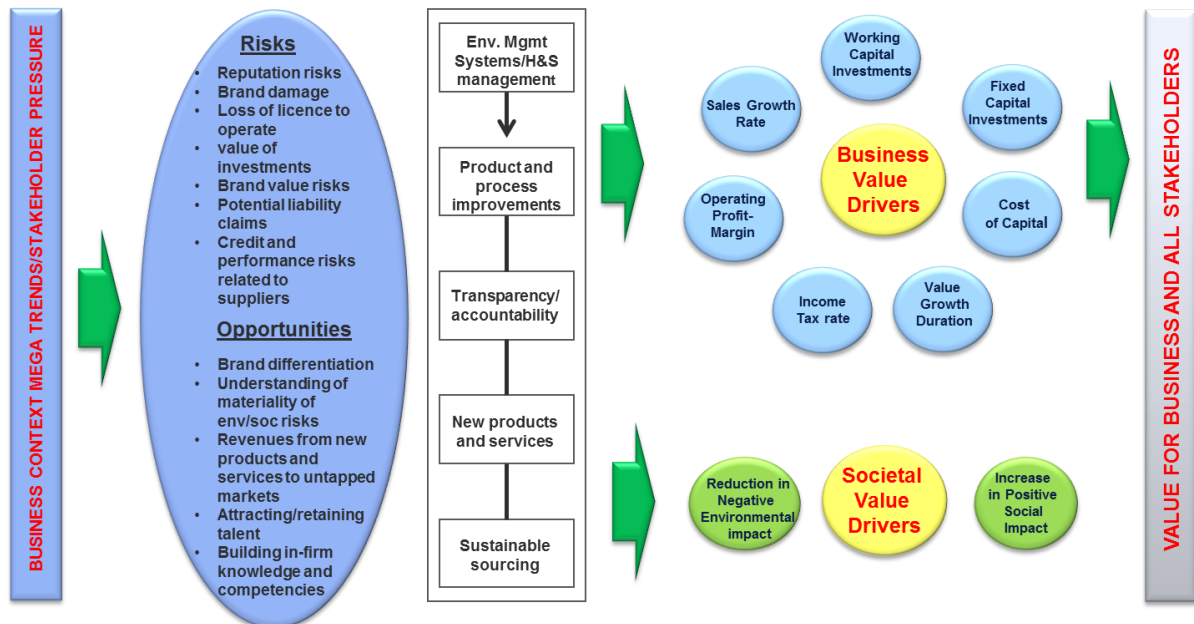
Both tangible and intangible (quantifiable and unquantifiable) sources of value creation must be brought to the fore. The key is to analyse not only *your company's* needs and abilities, but also *your supplier and buyer* needs and abilities. Here are some typical questions you might ask yourself about the value drivers propelled by your strategic choices:

- **Competitive, first mover advantage:** As in the case of Lipton Tea, a distinctive first mover advantage can be identified from Unilever's moves to make a popular mainstream tea brand sustainable. Think about whether you can also access a first mover advantage. Why not stand out from the rest as a leader?;
- **Create new products:** Again, as in the Lipton Tea case, a fresher, new Lipton Tea product to delight the consumer was created by using a sustainability lens to amplify its impact. Can you attempt something similar with one or more of your products?;
- **Process efficiencies:** Can your sustainability activities in sourcing provide opportunities for cost reduction and process improvements on the operational level?;
- **Create new supplier relationships:** As in the case of Friesland Campina, you may be able to improve capacities of your suppliers upstream. Can you improve farmer loyalty and assure long term relationships and security of supply by doing something similar?;
- **Develop new competences:** Will your strategy improve the knowledge and competence of your managers, suppliers and other stakeholders in the value chain? Such improvements may be difficult to replicate amongst your competitors;
- **Reputational benefits (with consumers, customers, farmer communities), as well as NGO and media image:** Does your strategy help you to improve brand value and reputation,

increase trust in your company and brands, enable you to differentiate your brands and provide your firm with an increased “licence to operate”;

- **Improved risk management:** Does sustainability allow you to raise new risk management needs and/or assure regulatory risk mitigation in the future?;
- **Attract and retain talent:** Will your strategy increase employee satisfaction/engagement and help assure both farmer and employee succession?;
- **Leverage public partnerships and funding:** Are new value-adding relationships possible through your strategy that will help your company manage the uncertainties and volatilities it is facing in the business context (either short term or long-term)?;
- **Assure price stability:** With most agricultural raw materials, price stability is a serious business issue. Can you, through your actions, assure an uplift to market price that will allow farmers (and you) to stay in business in the future?

Note that all of these questions are about turning risk into opportunity. In fact, sustainability strategies should have that ambition at its core.



**Diagram 4: Value Drivers**

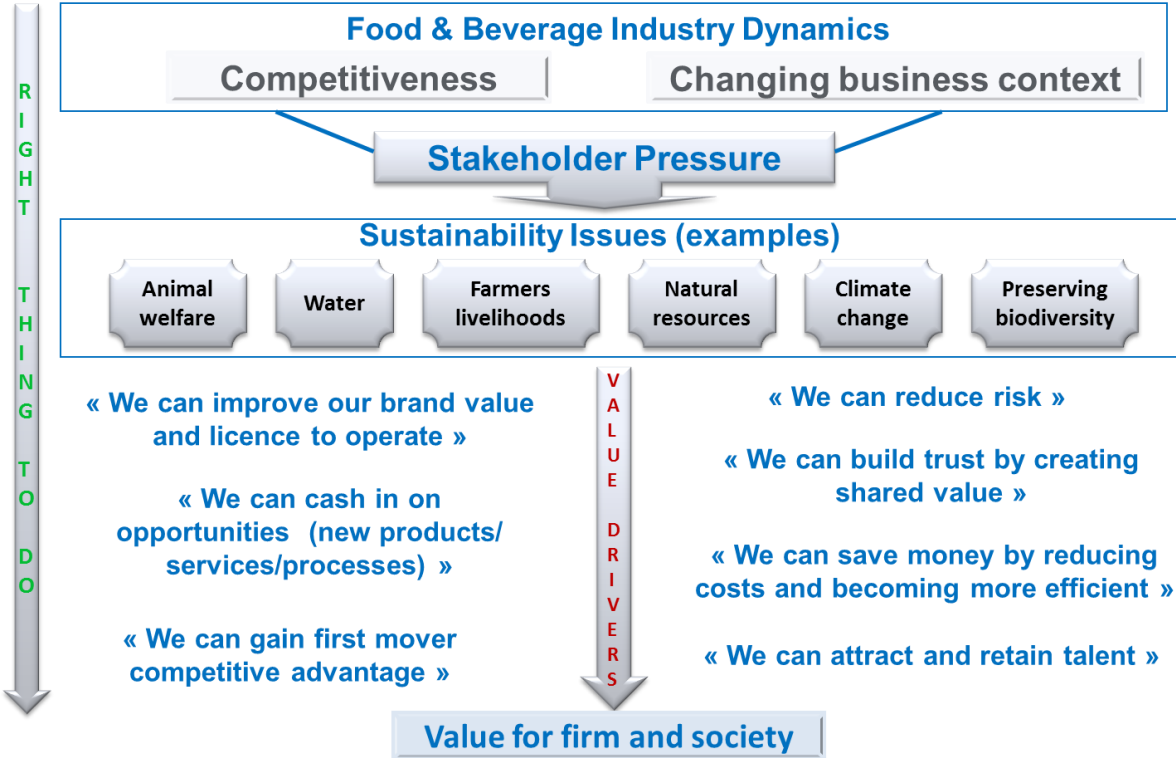
“Materials developed by IMD for the IMD/SAI Platform Master Class Training in Embedding Sustainable Agriculture Sourcing Strategies and based on research in Ionescu-Somers, A. And Steger, U. (2008) Business Logic for Sustainability: A Food and Beverage Industry Perspective, Palgrave Macmillan, UK”

## 1.5 Conclusion

As explained earlier, one of the key success factors in promoting your sustainable sourcing strategy is to clearly demonstrate how it supports your core business strategy. With that in mind, you and your colleagues need to work on discovering the “smart zone” for the sustainable sourcing of your company, and clarify the thinking between the value drivers of the sustainable sourcing strategy, and the corporate strategy itself. This requires a change in mindset, which in itself also represents a challenge. More information is provided on this in Chapter 6.

To make it easy, try using the graphic below to work on what we call an “elevator speech”, that is a short pitch that you can make to your colleagues in the few moments that it takes to ride a few floors in the elevator, and using the elements that we have presented in this chapter. A prepared “elevator speech” will help you to clearly communicate what you are doing to the outside world. An elevator pitch should be made up of no more than three sentences based on “bullet points” that describe the business rationale and value to the firm of what you are trying to achieve with your sustainable agricultural sourcing strategy. Perhaps the schema below, which serves to sum up the business logic presented in this chapter, will help you to do this, but again, do not forget to make your elevator speech company specific and as relevant to your own business as possible.

...and remember: A BUSINESS CASE IS NOT FOUND. IT HAS TO BE BUILT.



**Diagram 5: Summarising the Strategy**

“Materials developed by IMD for the IMD/SAI Platform Master Class Training in Embedding Sustainable Agriculture Sourcing Strategies and based on research in Ionescu-Somers, A. And Steger, U. (2008) Business Logic for Sustainability: A Food and Beverage Industry Perspective, Palgrave Macmillan, UK”



## 2. Implementing Sustainable Sourcing – Decisions to be Made

### 2.1 Turning Intent into Action

We assume that your firm has already the intention to source its raw materials from sustainable agricultural sources, or is in the process of forming and articulating such an intention. This intention might stem from a company strategy, or the demand of an individual brand within the company or follow senior management decisions. In other cases, it may be the result of initiatives taken by departments and people responsible for sustainability, supply chain, procurement or related functional areas, with sufficient support from top management. The starting point is a strong motivation to procure raw materials from sustainable sources. Managers, especially procurement managers, are expected to make it happen. Some companies may also articulate general or specific sustainable sourcing targets, for example:

- to only source from sustainable agriculture for all major agricultural raw materials;
- to source all palm oil, soy and paper (for packaging) sustainably within 5 years;
- to reduce the water and CO<sub>2</sub> footprints of the company's agricultural raw materials by 40%;
- to source all coffee with [UTZ Certified](#), [Rainforest Alliance](#) or organic schemes within two years;
- to become the industry market leader for chocolate production from sustainable cocoa;

### 2.2 Decisions

Moving from acknowledging the need for sustainable sourcing towards implementation requires a number of interrelated strategic choices. In this chapter, we offer a model for the main decisions that you need to take when building a sustainable sourcing strategy. The following chapters will then each look one of these decisions in detail. Note that these decisions, though connected, may present themselves in a different order than the one in which we discuss them here. You are also likely to revisit and modify some of the choices you make: Building a sustainable sourcing strategy is typically an iterative process.

The main decisions your company has to take are:



**Diagram 6: Main Questions**

- **What is the business case for sustainable sourcing?** Senior management, shareholders and colleagues will want to know why engage in sustainable sourcing. Having a clear and compelling business case is therefore essential. Although there are generic elements and common themes in the business case that will be similar to other companies', your business case will be very specific and needs to fit your company's business model, strategy and culture. Chapter 1 will look at building the business case for sustainable sourcing.
- **Which agricultural raw materials are in scope?** This includes whether you will concentrate on certain raw materials or groups of raw material only or include all of your agricultural raw materials. You may also prioritise certain raw materials over others or expand the scope of your sustainable sourcing strategy in a step-wise (phased) manner. Chapter 3 will help you with this identification and prioritization process.
- **Sustainability Requirements to be applied.** You need to decide how you define 'sustainable raw materials'. In other words, it is necessary to formulate (minimum) requirements for a particular raw material, covering relevant ecological, social and economic issues. These requirements may be based on an internal company standard (e.g. if included in supplier contracts), or they may refer to

a standard set by an external organisation. They may be fixed from the beginning or linked to continuous improvement. They may be set by the company or developed in cooperation with farmers, suppliers and other stakeholders. You may choose to have the requirements externally verified or certified, but not necessarily. In this guide, the word 'standard' is meant to indicate the collection of criteria by which a firm wishes to set the sustainability level for its agricultural raw materials. Chapter 4 deals with the question how to set this level and how to use internal or external standards.

- **Implementation in the company's supply chains.** Raw materials that meet the sustainability requirements set by you may not be readily available on the market. Your buyers will have to determine whether they can simply purchase from existing suppliers or other established sources. If not, they need to determine whether they are in a position to impose new requirements on suppliers or need to find ways to encourage or incentivize sustainable production. In other words, you need to install appropriate mechanisms in your firm's supply chain which encourage farmers and suppliers to meet your sustainability requirements. We will look at this in detail in Chapter 5.
- **The internal organisation required to support this implementation.** Sustainable sourcing will generally require changes in your company's processes and procedures and will likely affect organisational behaviours, corporate culture and values or even business model. You will need to build the incentive systems to ensure sustainable sourcing is implemented effectively and make available the required resources. You will also be likely to need new skill which you need to acquire or contract in. Chapter 6 will explore this in detail.
- Finally, decisions are needed on **how to communicate a company' sustainable sourcing efforts** internally and externally, which we will briefly look at in Chapter 7.

Diagram 6 summarises these above decisions. Obviously real decision making processes in companies are complex and the elements of the above diagram may be repeated several times or steps may be taken in a different order. They all interact and depend on your company's business case for sustainable sourcing (Chapter 1, the balloon in the centre).

### 3. Determining the Scope and Setting Priorities for your Company's Inputs from Agriculture



You need to decide the scope of your sustainable sourcing programme. This includes the questions which raw materials are included and which aspects of sustainability (or 'sustainability issues') are included. Even if a company has a long term goal to eventually source all its agricultural raw materials sustainably, there is often a need to set priorities: Which raw materials should you start with, and which issues should be given more or less weight. It should be noted that some ecological or social issues may be more relevant for one input than for another.

#### 3.1 Prioritising Raw Materials and Sustainability Issues

Typically, companies make decisions about the scope of their sustainable sourcing programme in three different ways: heuristically, by systematically mapping their supply chains and by using generic sustainability frameworks. Most companies will use a combination of these approaches, or move from one to another, e.g. start in a heuristic fashion and later expand to a more systematic approach.



##### 1. Heuristic approach to identifying priorities:

Companies start with raw materials or issues that are 'obvious starting points'. They know which raw materials are important to them; or that there are particular issues around certain materials.

These may be external pressures, e.g. the need to move towards sustainable palm oil in response to growing public concern and NGO pressure on unsustainable palm oil; or internal drivers like the need to develop a new source for sugar because domestic supply cannot keep up with the company's growing demand.

Many companies prioritise raw materials that

- Are important to their business in quantitative terms, e.g. cocoa for [Mars](#), black tea for [Unilever](#); or in qualitative terms, e.g. vanilla in vanilla ice cream;

- Are difficult to replace;
- The company has a significant influence on in the market, e.g. [Nestlé](#) in coffee, [Mondelēz](#) in cocoa, Unilever in palm oil or [Coca Cola](#) in sugar; or
- Are commonly associated with significant issues or risks (actual or alleged), such as palm oil and deforestation, dairy and greenhouse gas emissions or cocoa and child labour.

Some companies focus on issues that are ‘close to their heart’ or are connected to the nature of their business. E.g. many beverage companies focus on water-related issues. For dairy companies greenhouse gas (GHG) emissions may be an obvious choice. Others choose to emphasize particular themes that resonate particularly with consumers, such as the Walkers Crisps case below (Example 4), where [PepsiCo](#) connected to the high awareness of climate change in UK consumers.

#### **4. "50 in 5" - Reducing GHG and Water footprint to produce potatoes for Walkers Crisps in the UK**

PepsiCo is a good example of a company that has set strategic reduction goals as a point of departure for sustainable sourcing. In its project "50 in 5", the firm aims at reducing the GHG (CO<sub>2</sub>) emissions and water footprint of potato production for Walkers crisps by 50% in 5 years, starting in 2010. This is part of a wider project focussing on key crops sourced from the UK: potatoes, oats and apples which make Walkers Crisps, Quaker Oats and Copella Apple Juice. This ambitious goal will be achieved through a combination of approaches: partnerships, investment and technology, including:

- Applying new technologies, such as the i-crop™ and Cool Farm tools to better measure water impacts and carbon emissions and to help farmers manage their use of water, fertiliser and other raw materials more effectively.

- Investing in research to optimise energy efficient storage practices and to identify the most environmentally sensitive ways to grow and irrigate crops. This includes using wind turbines, anaerobic digesters and solar panels to create on-site renewable energy on the company's farms, trialling new low carbon fertilisers and capturing rainwater to be re-used for irrigation.

- Replacing 75% of the firm's current potato stock (the Saturna, Hermes and Lady Rosetta strains) with better quality varieties, aiming to improve yield and decrease waste. PepsiCo has invested millions in research over 20 years to find out which varieties of potato provide the best quality and are most sustainable – those requiring the least amount of irrigation, and that are highly resistant to diseases, easily stored over longer periods, and requiring less inputs to produce the same crop yields. Combined, this will mean a high quality potato requiring less water to grow and emitting less carbon whilst doing so.

Source: [SAI Platform Project](#)

A heuristic approach is not necessarily random. Interviewing stakeholders can be a powerful way of reliably identifying the relevant raw materials and issues. You can include internal stakeholders, such as colleagues from product development, procurement, manufacturing, brand marketing, legal etc.; and external stakeholders like suppliers, customers, NGOs, consumer groups etc.

2. **Systematic supply chain mapping:** Companies systematically map their supply chains to investigate which raw materials they rely on, in what quantities and where they come from. It is particularly useful for companies that buy many processed ingredients. E.g. modified starches or

many plant oil derivatives can be from a number of crops and it is often not immediately visible to the buyer which one was used, let alone where it was produced and how.

The UK Food and Drink Federation developed a sustainable sourcing guide that provides useful prompts for a [supply chain mapping exercise](#) , see below. However for a full supply chain mapping exercise you will most likely need to rely on a combination of in-house knowledge, suppliers' knowledge and external expertise.

## Supply chain mapping

### Questions to consider

- What is required to produce the product, e.g. raw ingredients, water, energy, packaging, transport, etc.?
- Who are your immediate suppliers?
- Who supplies them? Think about suppliers all the way back to source
- From which countries are key resources sourced and what do you know about them? E.g., are there any geopolitical issues?
- What amounts are being sourced?
- What are the largest resources in terms of expenditure and/or volume?

### Getting Started

- Use expertise from both within your business and outside, such as your trade association to help gather the relevant information
- Start by mapping major product categories e.g. those that are most critical and/ or account for the largest expenditure
- Gather information from suppliers to identify those who are of most strategic importance e.g. via questionnaire
- Create a visual and statistical map of your product supply chain

From: [FDf: Sustainable Sourcing](#) – Five Steps towards Managing Supply Chain Risk. 30 Nov 2012

While supply chain mapping gives you an insight into the primary agricultural raw materials and their origins it does not inform you of issues that may be connected to these raw materials or origins. You will need to identify these separately. However, knowing your supply raw material base will make identifying issues much easier than without that knowledge. Commonly, companies identify issues through a combination of

- Stakeholder interviews
- Internet and literature research
- Consulting firms specialising in sustainable agriculture.

Systematic mapping may, finally, help companies discover 'hidden' issues or opportunities. E.g. most chocolate contains cocoa butter replacers (CBRs). CBRs can be made from a number of non-lauric vegetable fats, however, often they are made from shea butter. Collecting shea nuts is an important livelihood strategy for women in the Sahel, and often the only source of cash income during the 'hunger season'. 90% of the world's exported shea nuts are used in the chocolate industry. A company that buys, say, chocolate coating may not have been aware of this and only

through mapping its supply chain discover its connection to thousands of women in the Sahel, and the risks and opportunities associated with it.

- There are a number of **generic sustainability frameworks** which can be as good basis for identifying issues. One example are the 'Principles and Practices' (P&Ps) is provided by [SAI Platform](#) (go to each of the [Working Groups](#) links to see specific P&Ps). Within that organisation, food and drink companies jointly develop P&Ps for the sustainable production of several crops on a pre-competitive basis. To date, P&Ps have been developed for arable and vegetable crops; beef; coffee; dairy and fruit. Other sets of generic sustainability frameworks are listed in the following table.

### 3.2 Building a Raw materials-Issues Matrix

Above we discussed two angles from which one can look at the scope of a sustainable sourcing programme: the angle of sustainability 'themes' or issues, such as biodiversity or water or child labour; and the angle of the primary materials behind the bought ingredients, such as dairy, cocoa, soy or tomatoes.

A useful exercise it to combine both of these angles in a raw material – Issues matrix. The Raw Material – Issues matrix has company-relevant agricultural raw materials (e.g. sugar, palm oil, soy, milk, wheat, rice ...) as one dimension and sustainability issues (environmental/ecological, social and business criteria) as the second dimension.

The result is a matrix like the one in the example below.

On the basis of such an 'issue-raw material' matrix, it becomes easier to identify which sustainability issues are more relevant for some products. Farm rehabilitation and tree replanting, for example, need to be included in a cocoa standard, but will probably not be first priority for potatoes in Europe.

		Material A	Material B	Material C	Material D
Ecology	Biodiversity / deforestation	Red	Orange	Red	Red
	Water	Red	Red	Green	Red
	GHG emissions / climate	Orange	Green	Green	Red
	Erosion	Green	Green	Green	Red
	...	Green	Red	Green	Green
Social	Child Labour	Green	Red	Green	Green
	Health/Safety	Orange	Red	Orange	Green
	Labour Rights	Orange	Orange	Green	Green
	Land Rights	Green	Red	Green	Green
	...	Green	Green	Red	Orange
Business	Market share (supply)	Green	Green	Red	Orange
	Quantitative importance / replaceability	Green	Green	Red	Green
	Qualitative importance / iconic character	Red	Green	Green	Red
	Supply security issues	Green	Red	Orange	Red
	...	Green	Red	Orange	Red

**Diagram7: A Simplified Issue-Raw Material Matrix. This is an illustrative example only.**

The above matrix is meant to illustrate the methodology and has been simplified on purpose. In real life, all relevant social, economic and environmental issues will have to be considered in view of your



company’s strategy. The heading “Labour Rights”, for example, subsumes multiple issues like “No forced Labour”, “Discrimination”, “Discipline/Grievance”, “Freedom of Association”, “Wages”, “Working Hours” etc. SAI Platform’s [Farm Sustainability Assessment \(FSA\)](#) tool may be useful as it provides a comprehensive list of economic, social and environmental issues to be considered at farm level. The Sedex Supplier Workbook can give good guidance on these issues and can be found [here](#).

There are numerous other ways of prioritising raw materials. Rabobank developed a tool that indicates when supply chain risks warrant early action by firms to secure supplies (see Diagram 8 below).

**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

Diagram8: Key Questions to Guide Decisions on Sourcing Strategy Timing and Options

### 3.3 From Priorities to Programmes

#### Setting Programme Goals

Once you have identified your company’s priority areas (crops, geographies, and issues) it is time to start clarifying the goals of programmes related to addressing these priorities.

This will be shaped by both what you aim to accomplish, by the structure of the supply network, by resources available and by the efforts currently in play.

Generally speaking, there are three major types of programmes, none of which are exclusive of each other.

- Measurement programmes that seek consensus on key impact areas as well as metrics and measurement processes, and that encourage farmers to begin measuring at the farm level. Programmes like that of The [Sustainability Consortium – TSC](#) and the [Field to Market calculator](#) developed in the US are programmes aimed at agreement and measurement. Benefit: measurable footprint.
- There are improvement programmes that seek to accelerate the adoption of best practices with proven benefits through research, education, and incentives programmes. Benefit: reductions in impacts, improvements in benefits. Reporting percentage of emission reduced, water saved, pesticides avoided, etc.
- There are sustainable sourcing programmes based on standards that provide assurance that producers are following agreed upon practices that add up to a credible sustainability standard. Benefit: Assurance of a “sustainable supply chain”.

Deciding what is appropriate in different situations requires being clear about your company culture in the first place. Moving to execution thereafter is about aligning sustainability with your business strategy. Here are some questions you might consider:

- Do you wish to be able to calculate a clear footprint for reporting purposes, for example, for the [Carbon Disclosure Project](#)?
- Do you wish to be able to stimulate improvements in key impact areas such as GHG emissions, water, labour, livelihoods, etc.?
- Do you wish to be able to measure those improvements and set targets?
- Do you need publicly-credible assurances related to the standards and/or adherence to the standards that will allow claims of “sustainable sourcing”?
- Do you need third-party credibility or is an internal programme sufficient?
- Do you have concerns about supply security that also include concerns about productivity and supplier loyalty?

The bottom line is to be clear about when and why you want **measurement, improvements, and/or sustainability standards** and about understanding how programmes can be designed to achieve these outcomes.

### **Understanding your context**

Whether you are focusing on fresh vegetables in Europe, flowers in Kenya, cocoa in West Africa, corn & soy in the United States, all have not only different supply chain structures, but also different “foundations” that you can build upon.

Direct trading relationships are frequently possible in fresh produce that in turn allow direct company programmes and incentives. High profile social issues such as child labour in cocoa drive the need for third-party certification while at the same time low productivity and potential supply short falls create the potential for direct investment with producers to increase productivity and improve the sustainability of practices.

Spending time with suppliers through the chain and with farmers is critical to reaching a deep understanding of the strategic issues. Here are some questions to bear in mind:

- What are the high priority issues from the farmers and suppliers perspectives?

- How do farmers and suppliers perceive “value” for them from such a programme?
- What programmes and standards are currently accepted by farmers that could provide a foundation to build on?
- What credible programmes and standards might exist for a particular crop and geography, whether third-party or industry-driven?
- Where would measurement, best practices, and/or standards have the highest leverage in a given context?
- What barriers to adoption are perceived by farmers and suppliers? (Knowledge gaps/know-how? Cost? Motivation? Being overwhelmed by requests for information?)
- Do you have direct relationships with a sub-group of suppliers that would allow a specific programme through your chain, or do you need to work as an industry to approach the supply chain?

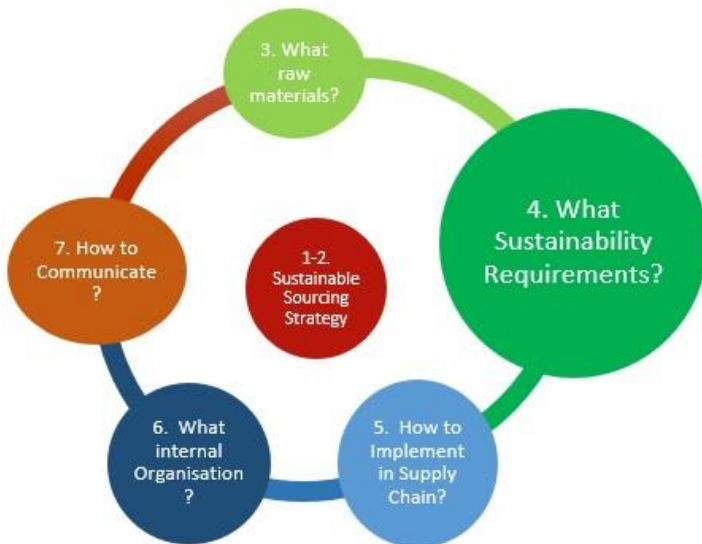
For example, when [Unilever](#) approached the design of a sustainable sourcing programme for rape seed in Europe, they:

- Sought equivalence to their sustainable sourcing standard to meet the established goal of 100% sustainable sourcing by 2020;
- Prioritized on strategic supplier relationships, in this case [Cargill](#), to identify a supply network of producers;
- Worked with farmers to understand the goals and standards that are already in use;
- After realising that a biofuels standard was already implemented by farmers, conducted a gap analysis around the differences between the Unilever sustainable agriculture code and the existing biofuels standard;
- Developed a targeted additional programme around supply traceability and gap closure to create a sustainable sourcing programme.



## 4. Choosing Appropriate Sustainability Requirements

### 4.1 Sustainability Requirements/Sustainability Standards



What does it mean when a company aims to source its soya, milk or cocoa from sustainable sources? There are yet no criteria that define sustainable agricultural raw materials universally. So a company has to make a choice. It has to set a minimum level for different sustainability aspects identified earlier on (as per Chapter 3). Once set, only raw materials that conform to this minimum level can be accepted by the company.

To decide whether the sustainable agriculture requirements set by the company are being met by farmers and suppliers, there is a need for a set of sustainability criteria by which compliance can be measured. For example, a requirement related to climate change can be translated into clear criteria for GHG emissions per quantity produced. A requirement related to labour rights can refer to detailed criteria as set by, for example, the [Ethical Trading Initiative \(ETI\)](#). The sustainability criteria define required or allowable values for a set of well-defined indicators.

Important remark on the word “standard”:

- In this guide, we use the term ‘standard’<sup>1</sup> broadly to denote the set of requirements that a company sets for an agricultural raw material. The company may set sustainability ‘standards’ for raw materials such as soya, milk or cocoa. The standard may be crop-specific (a standard for sugar, palm oil, etc.) or more general (a standard for a number of rotation crops, for example).
- Some standards may be external (defined by another organisation, such as an industry organisation or a multi-stakeholder platform) or internal (defined by the company). Internal standards are not necessarily called a standard but may rather be called ‘company sustainability code’ or ‘company sustainable sourcing requirements’, for example.
- Sustainability standards may be checked and verified/certified by third parties but this is not always the case. A choice to apply a standard is not necessarily a choice for certification (See Chapter 5).
- By ‘standard’, we do not mean a final collection of criteria set in stone. The standard may be dynamic and subject to change. There may be a need to develop best practices first, and then

<sup>1</sup> General [definition](#) of a standard: “A standard is a document. It is a set of rules that control how people develop and manage materials, products, services, technologies, processes, and systems.” The ISO definition: “A document established by consensus and approved by a recognised body that provides for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context”. The ISO definition is valid for ‘external standards’. Internal company standards do not need the same degree of consensus between stakeholders.

on this basis to develop a draft standard and then test the (draft) standard in practice before using it as a requirement for sourcing.

- Standards for sustainable agriculture will inevitably have to be implemented by the producing farmers. Setting a standard does not necessarily mean that the company imposes requirements on farmers and suppliers or expects farmers to immediately and completely conform to all criteria set by the standard. It can be a much more effective approach to develop sustainability requirements in productive collaboration with farmers and suppliers, being transparent on what the value generation is for all participants.
- Unless suppliers and farmers are already familiar with the standard and have experience in implementing it, there will be a need for a cooperation process between the company, suppliers and farmers in which best practices can be tested, capacity is built to apply the standard and the standard is gradually developed and improved.

## 4.2 Questions to ask

After deciding on a) the priority raw materials and priority issues that should be tackled by sustainable sourcing, and b) the way you want to shape your sustainable sourcing programmes (Chapter 3), your next decision will be to choose the appropriate sustainability requirements – or standard – from the many available options:

What sustainability standard should you apply to each of your company's priority agricultural raw materials?

Evidently, the answer to this question depends on the specific agricultural raw materials, the level of assurance you need for compliance and the related key sustainability issues. Wheat, for example, does not generally have the link with deforestation issues that palm oil has. But it also depends on the company's business exposure and security of supply risk. The general question can be specified in the following more-specific questions related to the best option:

1. Is it useful and possible to use an external standard or to develop a tailor-made internal company standard?
2. Is it useful and possible to use a multi-stakeholder endorsed standard?
3. Is it useful and possible to use another external standard, such as national schemes or industry standards?
4. Is it advisable to apply one standard or to allow for multiple standards for the same agricultural raw material?

## 4.3 Internal Versus External Standards

What is the best option: to use an external standard or to develop your own company's internal sustainability criteria or standard?

There are basically two approaches. Your company can either define its own sustainability criteria for a particular commodity, or it can use an existing standard developed by an external organisation. The



choice of whether to create your own standard or look to existing standards will depend on your firm's market power, brand positioning, and decisions about risk. When you apply your own standard, you bear all the costs, all the risks, and all of the pros and cons related to credibility of that standard. When you look to external standards, you share costs and risks, and participate – for better or worse – in the credibility issues related to the external standard entity.

Somewhere between these two options lies an alternative – adopting a set of “guidelines” developed and used by a group of companies, such as [SAI Platform's](#) Principles and Practices (P&Ps) for specific commodities. Within that organisation, food and drink companies jointly develop P&Ps for the sustainable production of several crops on a pre-competitive basis. To date, P&Ps have been developed for arable and vegetable crops, beef, coffee, dairy and fruit – see Example 15. Your firm may adopt the P&Ps as such, or use them as a baseline to develop its own internal standard.

Examples of company internal standards are [Starbucks' C.A.F.E. Practices](#) standard (see example 5), and [Unilever Sustainable Agriculture Code \(SAC\)](#), used by the company for inputs for which no appropriate externally defined standards are available.



## 5. The Case for a Company-Owned Standard: Starbucks' C.A.F.E. Practices

### Starbucks: the Brand and Sustainability

At the centre of Starbucks' business is coffee. Sustainable coffee sourcing is therefore a top strategic priority in the firm's sustainability approach. There are many competing sustainable coffee standards available. [Starbucks](#), however, has opted to apply its own standard to the bulk of its sourcing, thereby linking its brand to a consistent company-wide approach to sustainable sourcing.

### C.A.F.E. Practices

Starbucks' C.A.F.E. Practices ([Coffee and Farmer Equity](#)) were developed in close cooperation with [Conservation International \(CI\)](#) and industry stakeholders. A major reason for CI and Starbucks to cooperate was a strong overlap between biodiversity hotspots as identified by CI and the coffee growing areas from which Starbucks was sourcing its coffee.



The C.A.F.E. Practices programme is a holistic and comprehensive approach that addresses the most important factors that can impact sustainability in coffee production and processing. C.A.F.E. Practices consist of a comprehensive set of measurable standards focused on the social, environmental, economic and agricultural aspects of coffee production and processing.

- 1 Product Quality (requirement):**  
All coffee must meet Starbucks' standards of high quality.
- 2 Economic Accountability (requirement):**  
Transparency is required. Suppliers must submit evidence of payments made throughout the coffee supply chain to demonstrate how much of the price that Starbucks pays for green (unroasted) coffee actually gets to the farmer.
- 3 Social Responsibility (evaluated by third-party verifiers):**  
Measures in place that concern safe, fair and humane working conditions. These include protecting the rights of workers and providing adequate living conditions. Compliance with the indicators for minimum-wage requirements and addressing child labour/forced labour and discrimination is mandatory.
- 4 Environmental Leadership (evaluated by third-party verifiers):**  
Measures in place to manage waste, protect water quality, conserve water and energy, preserve biodiversity and reduce agrochemical use. Additional indicators focus on yield improvement through best agronomy practices.

### Supporting the Farmers

Although Starbucks is not directly involved in growing coffee and generally sources from traders and processors, it plays a strong role in supporting farmers through Farmer Support Centers, as well as access to loans for farmer cooperatives through third-party providers.

Sources: [Starbucks Ethical Sourcing](#) and [SCS Global Services](#)



You can also choose to use an externally defined, well-accepted standard. Whether applying an external standard is the best option depends on answers to the following questions:

1. **Are external sustainability standards available for the commodities under consideration?**

For a number of commodities, specific external standards have been developed. Examples are internationally traded for crops such as palm oil, soy, sugar, coffee and cocoa. For some others, including milk and beef, such standards are still in development. Apart from crop-specific standards, there are general standards for sustainable agriculture such as the [Rainforest Alliance Sustainable Agriculture Standard \(SAN\)](#), and standards that cover specific aspects of sustainable agriculture, such as the USDA and EU organic standards, and standards for Fair Trade. To help in the mapping out of the above-mentioned standards, the [International Trade Center \(ITC\)](#) developed an interactive online database called Standard Map – see Example 6 below.

## 6. ITC's Standards Map

Comparative analysis and review of voluntary sustainability standards, audit protocols and retailer codes of conduct

Standards Map is an interactive online database which presents comprehensive and comparable information on voluntary sustainability standards, audit protocols and retailer codes of conduct, with the aim of strengthening the capacity of all value chain actors to participate in more sustainable production and trade.

Standards Map references information on over 100 standards operating in more than 200 countries and certifying products and services in over 60 economic sectors. Through an intuitive and user-friendly search process, users can review and compare standards across common themes and criteria. Standards Map also includes additional reference material to increase awareness and knowledge of standards, including quick factsheets for each of the standards referenced and links to over 300 research papers.

### The key features of Standards Map are:

- Analyse and compare standards across 60 economic sectors, including agriculture, forestry, fisheries, mining, textiles and manufactured products, among others.
- Identify opportunities for product diversification and new niche markets: make a comparative assessment of standards requirements and assess potential costs and benefits of standard adoption.
- Flexible analytical tool: run customised searches based on your needs. Review standards' coverage and scope, cost and price estimates, support and assistance, governance and environmental, social, economic, ethical, traceability and quality requirements. Construct advanced queries or refine pre-set queries from a pool of over 700 criteria.
- Review research documents on voluntary sustainability standards: focusing on specific standards, products, countries or issues such as sustainability impacts.
- Generate maps: to view in which countries certified units operate, where specific certification bodies can certify/verify operations and link your queries to ITC's Trade Map.
- Impartial information: Standards Map is the only web platform providing information at such a high level of detail. Standards' data in the tool is verified according to a process including third-party experts and the respective standard owners. Standards Map does not make value judgments or ratings of standards.
- Multi-lingual: Standards Map is available in English, Spanish, French and Portuguese.

Users in developing countries and territories can register at [www.intracen.org/marketanalysis](http://www.intracen.org/marketanalysis) to access Standards Map free of charge. Users in developed countries and territories can register to get a one-week free trial access or subscribe for longer term access.

## 2. Is there an external standard available that is in line with your firm's sustainability ambitions?

The basis for choosing an existing external standard is given by the answers obtained as a result of the questioning process described in Chapter 3 on the priority issues that the standard should cover and the level that is required. In practice, existing external standards may fit your requirements, but they may be too high or too low for your company's purpose. In some cases, it might be a good idea to take an existing external standard as the basis, but to add company-specific demands for issues that have high priority. Your firm may also take elements from different standards and combine them to create its own standard. You may, for

example, add more explicit requirements on workers' rights, which are not present in the specific crop standard, from a social compliance standard such as [Ethical Trade Initiative \(ETI\)](#) or [Business Social Compliance Initiative \(BSCI\)](#).

3. **What is your company's sourcing model for a particular raw material?**

It makes a difference whether your firm sources directly from farmers and cooperatives, through suppliers, or even from commodity markets (for more information, see Chapter 5). The more the raw material has a 'commodity' character, the more uniform the raw material is and the less direct influence the company has on farmers. In such 'commodity' supply chains, it may make sense to rely on external standards and the related certification systems. In supply chains where a company is sourcing directly and, as a result, has more direct contact with suppliers and farmers, it may be less obvious to rely on external standards and systems. In that case, it may be better to carefully build-in the firm's sustainability requirements into pre-existing patterns of communication and control (see Chapter 6).

In order to carefully map the existing situation, try to address the following items:

- **Characteristics of the supply market:**
  - Origin and related sustainability risk;
  - Availability of the raw material, and likelihood of supply bottlenecks;
  - Character of the supply market, and supplier power (especially for the qualities needed by the company, see next point).
- **Company's manufacturing and production requirements:**
  - Quality;
  - Logistics;
  - Any other sourcing requirements for your company to be able to manufacture the products for the relevant brands.
- **Type of sourcing:**
  - Direct sourcing: raw materials are sourced directly from farmers or farmer cooperatives;
  - Sourcing through suppliers: raw materials are sourced from processors or traders, who in turn source from farmers or farmer cooperatives;
  - Sourcing on commodity markets: raw materials are sourced on commodity markets, often without precise information about the producing farmers and their locations.

4. **To what extent are the available standards known and accepted by producer markets as well as your company's producers and suppliers?**

Standards that are already known and well tested in the market may be preferred above standards that the producers are unfamiliar with.<sup>2</sup> Such standards will be easier to implement as farmers will have some existing knowledge.

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<sup>2</sup> It is also important to consider that farmers should not be required to duplicate information or meet standards that are different for every customer. This will place unnecessary pressure on suppliers and is a waste of time and resources. The objective should be to promote an easing of the burden on suppliers facing multiple audits, questionnaires and certifications. Using systems like Sedex, a not-for-profit membership organisation that operates the world's largest collaborative platform for sharing ethical supply chain data, can help companies to drive improvements in the ethical performance of global supply chains.

5. **Can the standard contribute to creating value in consumer markets?**

Certain external standards are well-known in consumer markets through certification and labelling programmes (see Part 4.9). Using such standards can thus be welcomed by some groups of discerning consumers. However, in other cases, an internal standard, strongly linked to the own brand identity can do as well or even better (again, the Starbucks case in Example 5 just above is a good example of a credible internal standard that consumers recognise).

6. **Is there a support structure available for implementing the standard?**

If an external standard is linked with appropriate infrastructures, including training and extension services for farmers, there are strong arguments to use that standard instead of others for which such support is lacking. See the chapter on implementation (Chapter 5).

7. **How much will it cost your company to implement a standard?**

The answer will depend on many factors, including the presence of your company in the sourcing regions, the availability of support structures, available skillsets and the level of requirements encompassed in the standard itself. Some further questions to ask in this regard: Who bears the costs and risks? What is the credibility of your own standard?

8. **What is the difference in the price and quality of implementation of a standard?**

Just as there are intrinsic quality differences between products, there are “extrinsic” quality differences between suppliers and their implementation of sustainability programmes. While superficially a certification label is supposed to mean “ok”, not all [Rainforest Alliance](#) certified products are equally sustainable, not all [UTZ Certified](#) products are equally well implemented, even if they have passed an audit.

#### 4.4 Building on Recognised Standards

When developing your company’s own set of criteria or when using an existing external standard, it may be advisable to use criteria and standards that are already both well developed, widely-recognised, and possibly owned by internationally recognised institutions. Below you will find some relevant examples.



## 7. Well-Recognised International Standards

Internationally recognised standards	
Roundtable on Sustainable Palm Oil (RSPO)	<a href="http://www.rspo.org/certification/how-rspo-certification-works%20">http://www.rspo.org/certification/how-rspo-certification-works%20</a>
Roundtable on Responsible Soy (RTRS)	<a href="http://www.responsiblesoy.org/en/">http://www.responsiblesoy.org/en/</a>
UTZ Certified	<a href="https://www.utzcertified.org/">https://www.utzcertified.org/</a>
Rainforest Alliance	<a href="http://www.rainforest-alliance.org/certification-verification">http://www.rainforest-alliance.org/certification-verification</a>
Fair Trade	<a href="http://www.fairtrade.net/standards.html">http://www.fairtrade.net/standards.html</a>
Global GAP	<a href="http://www.globalgap.org/uk_en/">http://www.globalgap.org/uk_en/</a>
Bonsucro	<a href="http://www.bonsucro.com/">http://www.bonsucro.com/</a>
Common Code for the Coffee Community (4C)	<a href="http://www.4c-coffeeassociation.org/the-standard/about">http://www.4c-coffeeassociation.org/the-standard/about</a>

### 4.5 Best Practice Development

If you decide to apply your company's own set of sustainability criteria rather than using an external standard, it will take time and effort to have a good idea about the options available for (more) sustainable agricultural sourcing, and to review the criteria that need to be set in the future standard. As a rule, firms will seldom choose a standard before having explored the best available options for improvement first. Best practice development is often more than a cooperative learning process in which farmers and suppliers are involved. Other partners in (pre-competitive) best practice development may be competitors, industry associations, technical and scientific institutes, governments and non-governmental organisations. Ask yourself the following questions:

1. What are the main issues that your company wants to tackle with its (future) sustainability criteria or standard? (For example, pesticide use, water consumption, erosion, and labour conditions.)
2. Have best practices already been developed for these issues (by your own company, by suppliers, by farmer organisations, by industry associations, by competitors and by others)?
3. What are the main issues for which best practice guidance still needs to be developed?
4. Are there opportunities to collaborate with other companies on a pre-competitive basis so as to not "reinvent the wheel" and to drive consensus towards improvement?
5. Are there opportunities to work and/or partner with NGOs, governments and others on these issues so as to share the burden of, for example, farmer capacity building, initial investment etc?
6. What parties can best be involved in exploring best practices to ensure effective implementation of the future standard?

### Companies Leading in Best Practice Development

Developing best practices for sustainable agriculture means cooperation – with suppliers and farmers and, more than often, with NGOs, scientists and governments. The [Coca-Cola](#) partnership with [WWF](#)

(described in Example 8 below) illustrates cooperation between an industry leader, its suppliers and a leading NGO to achieve synergies and attain objectives in the conservation of water.

## 8. Coca-Cola Partnership to Conserve Water

Water is vital to both WWF and The Coca-Cola Company (TCCC). Beverages are the firm's business, and water is the main ingredient in every product the company makes. Safe water also is vital to the sustainability of the communities that the company serves. WWF's mission is the conservation of nature and the protection of natural resources for people and wildlife. This includes protecting freshwater ecosystems. Through a partnership, TCCC and WWF are combining their strengths and resources to support water conservation throughout the world.

The partners have agreed to:

- Measurably conserve seven key watersheds;
- Improve the efficiency of the Coca-Cola system's water use;
- Support more efficient water use in the company's agricultural supply chain, with an initial focus on sugarcane, expanding to oranges and corn;
- Decrease the Coca-Cola system's carbon dioxide emissions and energy use; and
- Inspire a global movement by uniting industries, conservation organisations and others in the conservation and protection of freshwater resources around the world.

Source: [http://www.thecoca-colacompany.com/citizenship/conservation\\_partnership.html](http://www.thecoca-colacompany.com/citizenship/conservation_partnership.html)



Sugar cane fields near Port Douglas, Queensland, Australia ©  
Tanya Petersen / WWF-Canon

Example 9 below presents another case on growing apples sustainably and shows how [HEINEKEN](#), a leading cider producer, seeks cooperation with farmers, governments and others.

## 9. Cider from Sustainably-Grown Apples: Heineken and the HONE Network

HEINEKEN in the UK supports The [Hereford Orchards Network of Excellence \(HONE\)](#), which was established in late 2010 to build a long-term focused network of Herefordshire, UK, cider apple growers. Many of these growers supply apples for Bulmers ciders<sup>1</sup>, a HEINEKEN range of brands, in order to secure the supply of sustainably sourced cider apples. There are currently over 150 growers in the network.

There is a recognised need to develop more sustainable management systems for cider apples, given the very long-term nature of the crop (apple trees produce crops for about 40 years). Key issues are increasing input costs and impacts, climate change implications and regulatory pressures. To do this work is critical for the apple growers, for HEINEKEN UK as the world's largest cider maker, but also for the wider rural economy in the west of England.

HONE provides a forum for discussion and engagement in the development of more sustainable management systems for cider apples and runs a number of trials of more sustainable techniques. The network management is 80% EU funded with HEINEKEN UK providing the required match funding. HONE is managed by the [Bulmer Foundation](#). The EU funding for HONE is for two years, but growers are working on ideas to find more permanent funding because of the value it is providing.

### The HONE network has three primary objectives:

- 1) to engage the grower community in the cider industry's sustainability agenda which is managed by the trade association pomology<sup>2</sup> committee, in which HEINEKEN UK is an active member, to successively create a more sustainable system of raw material production;
- 2) to provide an active engagement forum for growers to share best practice with each other and to disseminate news from relevant external sources; and
- 3) to conduct and evaluate a number of trials with growers to see what new techniques can be developed, especially in existing orchards where there is no option of new planting (ranging from new methods of nitrogen application to developing new accounting tools).

Source: [SAI Platform Project](#)

<sup>1</sup> Cider is an alcoholic drink made from fermentation of apple and/or pear juice

<sup>2</sup> Pomology is the study of growing apple trees

## Industry-Wide Cooperation for Developing Best Practices

There are several successful examples of pre-competitive industry-wide cooperation for developing and defining best practices. One example of an organisation contributing to best practice definition for multiple agricultural raw materials is the SAI Platform – see Example 17. Another example of an organisation developing a standard amongst competitors, for a specific crop, is the [World Cocoa Foundation \(WCF\)](#) – see Example 10 below.



## 10. Industry-Wide Cooperation for Developing Best Practices: The World Cocoa Foundation

### Cooperation across the Cocoa Value Chain

The World Cocoa Foundation (WCF), based in Washington, is an international membership organisation representing more than 90 member companies across the cocoa value chain. WCF is committed to creating a sustainable cocoa economy by “putting farmers first – promoting agricultural & environmental stewardship, and strengthening development in cocoa-growing communities”.

WCF operates at the local and global level, bridging the needs of cocoa farmers and their families with the needs of the cocoa industry and the environment. Drawing on the strength of its members, and its partner network, WCF claims to combine unique industry experience, expertise and influence to deliver the necessary social, agricultural and economic advances to promote a healthy, sustainable cocoa economy that benefits everyone from producer to consumer.

### Public-Private Partnerships

WCF works through public-private partnerships that bring together donors, industry members, producing country governments, research institutes and non-governmental organisations to achieve its goals. The Foundation supports programmes that benefit farmers in cocoa-growing regions of Africa, Southeast Asia and the Americas: programmes that work with farmers at the farm level, prior to sale or commercialisation of their cocoa, providing farmers with the skills they need to operate productive farms and make sound business decisions.

Source: <http://worldcocoafoundation.org>

## 4.6 Multi-Stakeholder Endorsed Standards

Is it useful and possible to apply a multi-stakeholder endorsed sustainability standard?

### Sustainable Commodity Standards

For a number of agricultural raw materials, standards have been developed by so-called multi-stakeholder initiatives (Roundtables). These are associations in which producers, traders, processors, manufacturers and retailers cooperate with environmental and social NGOs to set, implement and certify sustainability standards. Examples are the Roundtables on palm oil ([Roundtable on Sustainable Palm Oil - RSPO](#)), soy ([Roundtable on Responsible Soy - RTRS](#)) and sugar ([Bonsucro](#)).

Your company may prefer to base its sustainable sourcing on sector sustainability standards defined in such multi-stakeholder settings, especially when dealing with commodities that are linked to intensive public debate on sustainability issues, such as biodiversity, deforestation, climate change and human rights issues (including child labour). Endorsement by external stakeholders may provide better protection against reputational damage and risks of supply insecurity than applying company-internal or industry-owned standards. However, there are no guarantees, as major multi-stakeholder initiatives such as RSPO and RTRS have come under criticism for not going far enough to address the fundamental underlying environmental issues. Moreover, such multi-stakeholder endorsed standards are available only for a limited number of commodities. See Annex A for more information.

## Social Compliance Standards

Apart from crop-specific sustainability standards, there are several general standards on social compliance issues (labour rights, child labour, freedom of association, anti-discrimination, health and safety, etc.), which may cover some of the more important social sustainability issues related to certain crops. Important social compliance standard organisations are [Ethical Trading Initiative \(ETI\)](#), [Business Social Compliance Initiative \(BSCI\)](#), [UN Global Compact](#) and others. See Annex B for more information. Your company may decide to include (parts of) these standards into its supplier code(s).

### 4.7 One Standard, Multiple Standards, Dynamic Standards

Should you use one or several standards for the same agricultural raw material?

For some commodities, there is a great variety of standards available. Most of these standards have been mapped out by ITC in an interactive online database called [Standards Map](#) – see Example 6). A good example is ‘coffee’ with, just to mention a few of them: the [Common Code for the Coffee Community \(4C\)](#), [Rainforest Alliance](#), [UTZ Certified](#), [Fairtrade](#) and Organic. In such a situation, different solutions are possible:

1. Choose one preferred high standard and do not accept lower standards. This strategy depends strongly on brand positioning and the quality profile of the branded product, as it is potentially relatively costly and limits the supply universe. [Nespresso’s AAA standard](#) which builds on the Rainforest Alliance standard is an example.
2. Choose one preferred high standard and work with suppliers to gradually enable them to reach this standard without losing them. [Starbucks’ C.A.F.E. practices](#) (cited earlier) is a good example.
3. Define your company ‘meta-standard’. Thereafter, benchmark standards available on the market against that meta-standard, and source preferably from those that are most aligned. For example, [Unilever’s Sustainable Agriculture Code](#) is used as a meta-standard on the basis of which the acceptability of external standards are judged.
4. Use different standards for sourcing from different countries or regions. Even if a company has preference for the multi-stakeholder endorsed RTRS standard when sourcing soy, the reality is that other sustainable soy schemes are dominant (and better known by suppliers and farmers) in other countries: for example, the US national scheme, [SojaPlus](#) in Brazil.
5. Define a baseline minimum standard and work towards gradually implementing a higher standard. For example, starting [Nestlé’s](#) coffee strategy with 4C as the baseline, with the Rainforest Alliance SAN criteria as the target.
6. Decide on a preferred standard, but allow for other standards as long as supply according to the preferred standard is not sufficiently available. Encourage continuous improvement.
7. Allow for multiple standards in the sourcing strategy. Tchibo’s coffee sourcing strategy, for example, aims at increasing proportions of ‘sustainable’ raw materials, in which ‘sustainable’ may mean ‘organic’, ‘Fairtrade’ or ‘Rainforest Alliance’ certified.

## 4.8 Taking the Lead, Following or Teaming Up with your Peers?

Should your company take the lead in the development of sustainability standards for specific agricultural raw materials?

When defining and implementing your sustainable sourcing strategy, ask yourself what role your firm can or should play in relationship to other firms in the same sector. Is there an opportunity to be a leader and/or first mover? If so, what would be the associated advantages and disadvantages – in terms of visibility, financial costs and benefits, etc? Can first mover steps contribute to a firm gaining competitive advantage over others? By leading, will others follow, thus levelling the playing field? Take the Unilever [Lipton Tea case](#) in Example 2. Initially there were questions asked by internal decision-makers about competitors capturing market share. They argued that if other major tea brands also switched to certified tea, sustainability would no longer be a competitive advantage. The answer lay in the positive economic impacts for [Unilever](#) of a transformation of the entire industry to certified tea. If a significant share of both tea producers and buyers around the world switched to certified sustainable tea, prices would inevitably increase across the board. With prices moving upward, the company realised that the historical trend of commoditisation of tea would be reversed, allowing retail prices to rise gradually. Because Unilever had the largest global market share, it would be able to capture the major part of the income growth. The company saw that it would gain significantly from an end to the downward spiral of process and quality variance on the global tea market. And it considered this move as one of its responsibilities as the single biggest tea purchaser in the world.

Leading the way means playing a decisive role in setting sustainability benchmarks that may eventually be included in company-independent sector-wide standards, from which other entities – including your competitors – will eventually profit. Companies may do this by playing a leading role in multi-stakeholder initiatives. Examples in the past were:

- Unilever leading on palm oil by setting up the [Roundtable on Sustainable Palm Oil \(RSPO\)](#);
- Nestlé leading on coffee, as a founding member of [Common Code for the Coffee Community \(4C\)](#), for example;
- [McDonalds](#) leading on beef – see Example 11;
- [Mars](#) leading on cocoa with the [WCF](#).

A company that wishes to source agricultural raw materials for which external standards are still lacking (or where there is a confusing variety of standards) should ask itself whether it can be profitable to take the lead in standard development or not. Arguments in favour of such a role are the volumes traded by the company, the visibility of the company and its brands.

In effect, taking the lead may take different forms:

- making the internal company standard available as an open source standard to the industry;
- setting up cooperation projects in the industry and with farmers to define best practices as a basis for standard setting;
- promoting mutual recognition between standards and harmonisation between standards;

- promoting a common understanding of best practices and industry minimum standards in an existing platform, such as an industry association;
- setting up an industry or multi-stakeholder sustainability standard / certification initiative.

Evidently, one company may be a 'leader' on one commodity and a 'follower' on another. For example, Unilever is a leader in the discussions around palm oil and the RSPO because it is a major purchaser and user of palm oil. However, it explicitly takes a lesser role in commodity markets where it is a smaller purchaser and user. Mars is a leader in the cocoa arena, but more of a follower in palm oil as a relatively small consumer.

## 11. McDonald's Europe and Sustainable Beef

McDonald's has a partnership with the conservation organisation WWF, which worked with the company in 2010 to undertake an analysis of commodity purchases globally with the greatest potential sustainability impact. This work identified beef as the raw material in McDonald's global supply chain that has the greatest overall impact.

McDonald's recognised that, in order to effect any change in the production of the beef it purchases, it must work in partnership with the beef industry and its stakeholders on a pre-competitive basis. Globally, the firm was one of six hosts for the Global Conference on Sustainable Beef (GCSB) in 2010. [The Global Roundtable for Sustainable Beef \(GRSB\)](#), a not-for-profit organisation founded in early 2012, was born out of the GCSB. The GRSB is a global and multi-stakeholder initiative which aims to advance continuous improvement in the sustainability of the global beef value chain. McDonald's is represented on the Executive Board.

In Europe, the company has been involved in efforts to address the sustainability of primary beef production for a number of years. The [McDonald's Agricultural Assurance Programme \(MAAP\)](#) has been in operation since 2001 and is the firm's key agricultural programme in Europe. MAAP enables the company to manage the sustainability of the farm products used in restaurant menu items through a series of targets for direct suppliers. The [Flagship Farms](#) programme builds on the MAAP by identifying and sharing the best practices that are in operation on some of the most progressive farms in the supply chain. McDonald's Europe is also involved in several multi-stakeholder and industry-led platforms:

- The company is a member of the industry-led SAI Platform and chairs its [Beef Working Group](#).
- McDonald's was also a founding member of the multi-stakeholder [European Animal Welfare Platform \(EAWP\)](#), a three year (2008-2011) project sponsored by the European Commission. The EAWP achieved for the first time broad consensus on the key welfare issues, and identified best practices and research needs for major farm animal species.

The company is also running a number of national-level initiatives on sustainable beef:

- Across France, Germany, the UK and Ireland, McDonald's is working to measure and reduce greenhouse gas emissions from beef farms.
- In Germany, the BEST beef project provides an incentive programme for beef farmers by rewarding sustainable farming practices with bonus payments.
- Through their [Farm Forward programme](#), McDonald's UK is supporting the training of young farmers in key farming and business skills, and is helping more than 200 beef farmers across the UK and Ireland to measure and reduce the greenhouse gas emissions of their enterprise.

McDonald's vision is to engage with suppliers and major stakeholders from across the industry to identify sustainability principles and drive best practices into mainstream beef production. This will help better equip the sector to meet the challenges of tomorrow – and provide for a sustainable beef supply chain that is able to deliver sufficient high-quality raw materials well into the future.

*Source: Company information.*



## 4.9 Certification

Do you need a third party to certify compliance with sustainability standards?

Compliance with a sustainability standard may be formally checked by a third party who then grants a certificate to the company and/or the raw material or product delivered. Certification can be the last step in the process described in this guide. But it is important to note that certification can in no way replace any of the efforts needed to ensure a sustainable sourcing base for your company.

Certification is not a goal in itself, but a means to an end. It can be viewed as a common language to refer to sustainability throughout the supply chain, and it is often seen as a first step towards more far-reaching improvements rather than an end-point in itself. Before deciding for or against certification, you should ask yourself the following questions:

1. **Do you need certification to ensure compliance with your sustainability requirements?**

If your company has strong control over its supply, through direct sourcing from farmers or through suppliers, the added value of certification may be less than in situations where the company is getting its raw materials from distant sources (such as commodity markets).

2. **Do you need certification as a protection against reputation risks? And will certification give you this protection?**

Certification can be important for agricultural materials faced with important and publicly high-profile sustainability issues. In such cases, even if your firm does have high-level standards and is in a strong position, third-party certification may bring credibility (depending on the credibility of the standard and certification system themselves). Certification can be important for raw materials linked to deforestation issues and human rights for example. Multi-stakeholder supported standards can give more protection than standards without such support (see 4.6).

3. **Will certification create added value in consumer markets, e.g. through labelling?**

In some markets, products from certified ingredients (possibly labelled as such) may have a competitive advantage in comparison to products from non-certified sources. For a case example, refer back to the [Unilever/Lipton tea](#) case referred to in Chapter 2, Example 2.

4. **What are the expected costs of certification for my company and for farmers?**

Certification usually comes at a cost, not only for the sourcing company, but also for the

suppliers and farmers. Farmers are likely to demand a premium for their certified products. Are these costs justified in terms of their contribution to sustainability and protection against reputation risks? Are they a necessary step to entice farmers – often poor smallholders – to participate until they achieve the more relevant benefits of yield improvements? Are there any options for reducing the costs without losing the added value of certification? Is certification the real cost, or is the cost really of reaching remote farmers that you'll have anyway with or without the actual certification cost? Only a thorough analysis and answers to rigorous questions asked to your suppliers will help you answer this question.

### Chain of Custody Certification, Buying 'Green Certificates'

Is there a need for chain of custody certification?

Is it a good idea to buy 'Green Certificates' instead of buying certified raw materials?

If your company plans to sell end products with a claim that they were made from sustainably grown raw materials, you must make sure that these raw materials which you source, come from farms that comply with sustainability requirements. In the case of margarine, if you claim that it is made with RSPO certified palm oil then the palm oil that is actually contained in the pot of margarine has to be sourced from certified palm oil plantations. No mixing with non-certified palm oil may take place. In this case, non-certified and certified shipments have to be strictly separated.

If your company's objective is solely to promote the sustainable production of certain commodities overall – without a link to specific claims on the brand – then identity preservation (IP) is not necessary. To take the margarine example again, what is important is that a certain volume of palm oil sourced by a company has been produced sustainably somewhere. It is not important that exactly that production ends up in specific pots of margarine.

It is up to you to choose what levels of separation and identity preservation you need for your sustainable sourcing needs. You have the following options:

- a. To require separation of certified and non-certified agricultural raw materials and to know exactly where these are coming from (full IP);
- b. To require separation of certified and non-certified raw materials, but allow the supplier to mix these coming from different certified sources;
- c. To accept a mix of certified and non-certified agricultural raw materials, but control the percentage of each that is physically present in the volume which you source;
- d. To accept a mix of certified and non-certified raw materials in a certain overall percentage, but without knowing the exact percentage that is physically present in the volume sourced;
- e. To buy sustainability certificates for all or a part of your inputs such as palm oil. Similar to the situation with 'green electricity', the sustainably produced raw materials will be delivered to any customer, not necessarily the customer who buys the certificates.





## 12. Roundtable on Sustainable Palm Oil (RSPO)'s Supply Chain Systems

The [Roundtable on Sustainable Palm Oil \(RSPO\)](#) supports, apart from Identity Preserved palm oil, three alternative supply chain options: 1) segregated, 2) mass balance and 3) book and claim. The following requirements have been formulated:

### 1) Segregated

"The Segregation approach requires that the RSPO certified palm oil from estates/plantations is kept separate from material from non-RSPO certified estates/plantations at every stage of production, processing, refining and manufacturing throughout the supply chain."



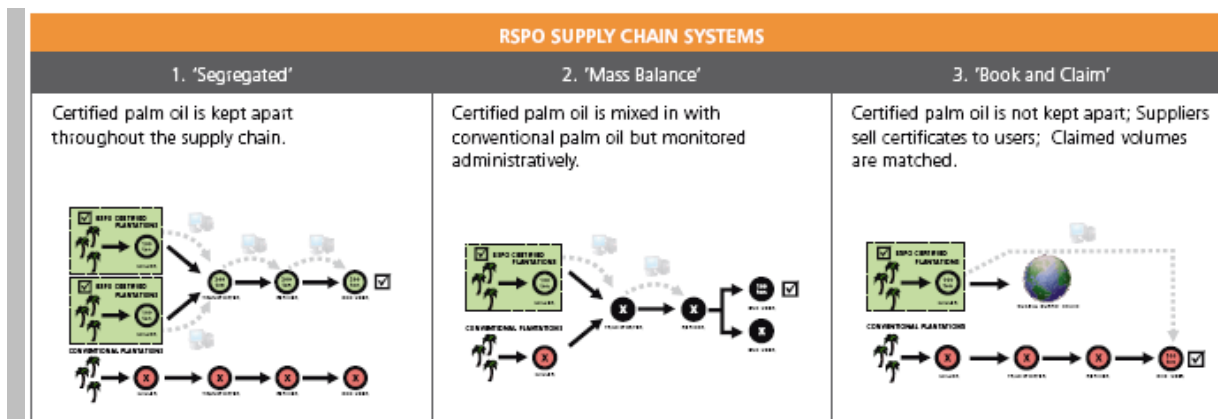
### 2) Mass Balance

"The basis of the supply chain requirements for mass balance will consist of reconciliation between quantity of RSPO material bought and the quantity of CSPO material sold. This includes control of purchases and sales of RSPO certified palm oil and its derivatives which will be independently verified. There will be no requirements for separate storing or controls in the production process."

### 3) Book and Claim

"Volume credits can only be introduced into the system by RSPO certified mills and their supply base up to the annual output of the certification unit. Volume credits are traded electronically directly to end users... These requirements are designed to ensure that all palm oil and/or its derivatives that are claimed to be sustainable under this supply chain model are indeed covered by sustainable certificates."





Source: *RSPO Supply Chain Certification Systems, November 2009, approved by RSPO Executive Board, 5 November 2009.*

**Chain of Custody (CoC)** certification may be necessary to secure the origin of a particular raw material, especially for options b, c and d mentioned above. It is not needed in case of complete separation (option a) or in case of certificate trade (option e). CoC certification, however, can be complex, difficult to implement and expensive. Costs and benefits should be carefully analysed before deciding for CoC certification. Here are some questions to ask:

1. **Do you really need to know the origin of the raw materials used?**

The answer partly depends on the sustainability issues and risks related to that particular material. It also depends on other parameters such as quality, health and safety. For markets with extremely high food safety standards, such as baby foods, IP is often preferred.

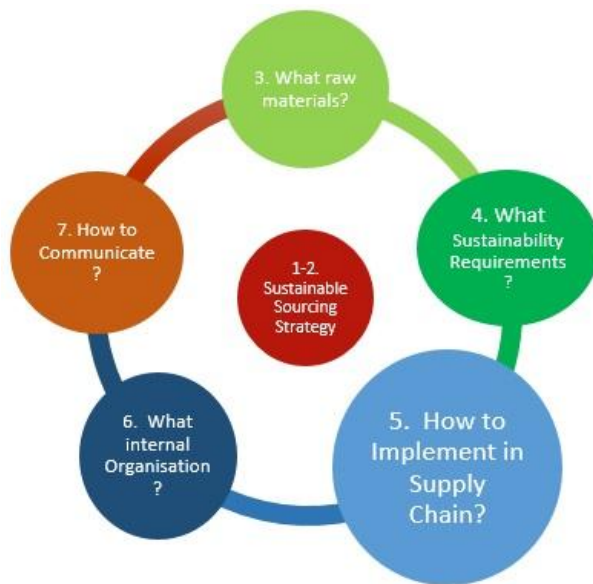
2. **Should you completely exclude non-certified sources?**

This may be the case if the use of even minor fractions of non-certified sources can severely damage your company's reputation. Otherwise, it may be feasible to opt for a mixed model (options c or d in the above list).

3. **Is it sufficient to buy 'green certificates'?**

If your company's main goal is to contribute to sustainable agriculture, this is by far the most cost-effective option. But be aware that green certificates do not protect you against reputation risks linked to agricultural practices used to produce non-certified raw materials.

## 5. Implementing Sustainability Standards in your Company's Supply Chain



If you are reading this chapter, we assume that you have chosen the level(s) of sustainability for your company's main agricultural raw materials and now need to implement those sustainability standard(s) (cf. Chapter 4). Implementation may produce questions and problems that may lead to re-thinking or even changing the standards or even your company's supply chain and procurement strategies. In the real world, questions addressed in this chapter and in Chapter 4 will often come up simultaneously.

The question addressed in this chapter is:

How do you implement your firm's sustainability standards throughout the value chain?

Throughout this chapter, we assume that your company does not actually produce the agricultural raw materials itself but sources them from farmers – either directly or indirectly via suppliers (processors, traders, etc.). This being the case, implementing a standard for sustainable agriculture means: making sure that producers comply with the requirements set in the sustainability standard (on top of any other requirements set by the company). Generally, there are two sides to this implementation: on the one hand, the company sets conditions in its supply contracts; on the other hand the company assists its suppliers in complying with these conditions. Therefore, relationships with suppliers are characterised by both cooperation (development of best practices, assistance with compliance, etc.) and monitoring (rewarding compliance and continuous improvement, de-incentivising non-compliance).

Implementation can vary considerably between different commodities because of the differences in sustainability issues and in the supply chains.

**There are five sub-questions to consider in order to answer this general question:**

- 1. Can you get the sustainably sourced raw materials through your existing supply network or do you have to develop new sources of supply?**

First and foremost, the way to implement your firm's sustainability requirements will depend on how sourcing is organised. It makes a great difference whether your company sources directly from farmers or whether the raw materials are obtained from processors or traders further up the supply chain. In some cases, sustainable sourcing may provide an (additional) argument to redesign the supply chain, for example to allow for more direct sourcing, closer partnerships with intermediary suppliers, or changes in price-risk management strategies.

2. **How do you include sustainability issues in your general supplier requirements?**  
Relationships with suppliers of agricultural raw materials are already subject to different requirements, such as general supplier conditions. It makes sense to integrate new sustainability requirements with already existing requirements, such as codes of conduct or supplier terms of trade.
3. **How do you support your suppliers to meet the chosen sustainability requirements?**  
If you make it a strict requirement to supply your company, farmers will ultimately have to meet your company's sustainability requirements. But real engagement will only happen if they don't feel forced into implementation and rather feel that a strong relationship is being built whereby your company provides incentives and assistance. This can be achieved either directly with the farmers or more indirectly through suppliers or third-party organisations, depending on the sourcing model (referred to in Question 1).
4. **How do you monitor implementation?**  
To obtain reliable information about progress in implementing the sustainability standard, there is a need to monitor the farmers' performance. How this can be done, is dependent on the sourcing model addressed in the first question.
5. **How do you verify compliance with the sustainability standard? Is there a role for third-party certification? Is there a need for chain of custody certification?**  
Third-party certification can be an element in implementing the sustainable sourcing standard, but not necessarily. Whether certification is useful depends on the company's needs and the sustainability issues attached to the particular raw material.
6. **How do you measure and assess the impact of your sustainable sourcing strategy?**  
The question here is to what extent the implementation of your sustainable sourcing strategy is contributing to reaching the underlying goals. For example: is it contributing to protecting biodiversity, to reducing greenhouse gas emissions, to eradicating poverty or to reducing some other negative impact? SAI Platform proposes guidelines for the measurement of several sustainability indicators, in form of a guide entitled [Sustainability Performance Assessment \(SPA\)](#). The guide also provides a benchmark between these guidelines and the best calculators available on the market today to implement such measurement – such as [SAFA](#), [RISE](#), [Field to Market](#)<sup>®</sup>.

## 5.1 Choosing your Sourcing Model

Can you get the sustainably sourced raw materials through your existing supply network or do you have to develop new sources of supply? Is there a need to redesign existing supply chains?

In chapter 2, we explained how to map the existing sourcing situation. At the end of that exercise, needs for changes in the current sourcing model must be identified. For example: What visibility do I have of my supply chain? Where am I 'blind'? What do I need to do to gain visibility?

## Integrating Sustainable Sourcing Requirements into the Existing Sourcing Model

You may wish to try and implement sustainability requirements (as identified in Chapter 3) within your company's already existing sourcing model(s):

1. In the case of **direct sourcing**, there is already a strong relationship between your company and farmers. External standards and certification systems may not be needed. Your company – or a third party acting on its behalf – may directly support farmers towards the adoption of new practices that conform to the standard.
2. If your firm is **sourcing from suppliers** such as processors and traders, it may not have built up close relationships with farmers. You may only be able to promote sustainable agriculture indirectly – through adding sustainable agriculture requirements to supplier contracts, for instance. These suppliers will be expected to transfer these requirements up the supply chain eventually to the farmers. In that case you may or may not decide to rely on third parties for securing compliance of farmers with the sustainability requirements.
3. **Sourcing from anonymous commodity markets** does not provide your company with realistic possibilities to impact the farmers' practices, owing to the lack of traceability/transparency. A practical solution here may be to require compliance with an externally defined and independently certified sector sustainability standard.

## Adapting the Sourcing Model to Make Sustainable Sourcing Possible

It may not always be possible to effectively implement the sustainability standard(s) chosen without changing your company's sourcing model. For instance, this may be the case with commodities for which there are no widely accepted sustainability criteria available yet, and which require a more direct company involvement than is the case today. This may be a reason for changing the sourcing model to focus on more direct sourcing – see the LINK methodology in Example 13<sup>3</sup>.

### 13. Linking Worlds: Building Sustainable Supply from Small Scale Producers

Tremendous opportunity exists to increase the sustainability and stability of supply from small-scale producers. Coupling sustainable sourcing with increased market access and development impact can meet increased volume needs as well as bolster brand image in emerging markets. The Linking Worlds website, hosted by the Sustainable Food Lab, is the result of a partnership between [Oxfam](#), CRS, [IIED](#), [Unilever](#), [Rainforest Alliance](#) and CIAT. It contains online resources on the LINK methodology: Business Models that Link Smallholders to Markets.

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<sup>3</sup> See also: Don Seville, Abbi Buxton, Bill Vorley, *Under What Conditions are Value Chains Effective Tools for Pro-Poor Development?*, IIED, 2001. <http://pubs.iied.org/16029IIED.html>

## The Issue: Think Big – Go Small

From the LINK website: "Well-managed, inclusive businesses have the potential to create a win-win situation: farmers gain access to markets, knowledge, and technology and increase their income and resilience. While buyers – beyond considerations of CSR and the creation of "ethical products" –are better able to source key raw materials to their specifications at a competitive cost. The authors of this guide maintain that inclusive business practices in an era of tightening global supplies and natural resource limitations is simply good business."

### The Process

The website contains different suggestions for structuring the process towards sourcing from smallholders, of which the LINK process is the most elaborate. It consists of four key tools and two add-on tools:

- Key tool #1: value chain map
- Key tool #2: business model canvas
- Key tool #3: New Business Model Principles
- Key tool #4: Prototype Cycle
- Add-on tool #1: Drivers, trends and key implications
- Add-on tool #2: NBM Typologies

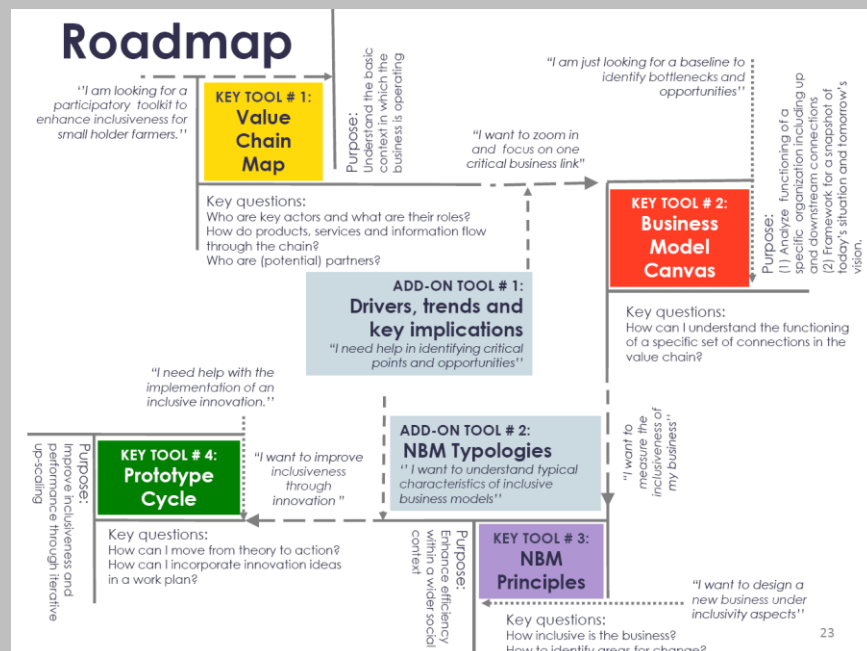


Diagram 9: Roadmap Suggested by LINK

Sources: <http://sustainablefoodlab.org/images/stories/pdf/>

However, sustainability arguments may not be sufficient to change a company's supply chain. It is therefore highly recommended to look for additional business gains that can be realised. If, for instance, the change can also solve supply security or quality problems, the business case is much stronger.

## 5.2 Including Sustainability Issues in Supplier Requirements

How do you include sustainability issues into general supplier requirements?

Every company has, in one form or another, a set of general supplier requirements ('supplier code', 'supplier code of conduct', etc.) which usually contain chapters about legality, workers' rights, child labour, health and safety, environmental responsibility, etc. Such a supplier code can be used as an effective instrument for making sure that sustainable sourcing becomes an integrated element of all company-supplier relations as long as they contain appropriate clauses on the subject.

As you implement your strategy, you will want to think about your relationships with suppliers who must implement it. What kinds of investments will they need to make? What is their ability and interest to invest – they will be asking “what’s in it for me?” What is your role in enabling that investment? It is important to think about the power relationships and how their business will benefit from participating in your sustainability programme. Sometimes just winning your business is an adequate incentive, but sometimes even the biggest buyers will not be able to simply dictate compliance or participation. It can thus be useful to ask yourself the following questions:

- What are the existing rules that regulate relationships with your suppliers?
- Do they contain sufficient clauses about sustainability and related issues? Is there a need to update these clauses?
- Do they contain sufficient requirements with respect to suppliers' obligations towards the farmers who supply them? Is there a need to extend or update these requirements?
- Do they contain effective sanctions against suppliers who do not comply with the sustainability requirements? How can you incentivise continuous improvement?
- How seriously has your firm asked these questions in the past? Was it a box-ticking exercise or a serious endeavour to which suppliers were held accountable? If the intention is to drive change rather than tick boxes, will you follow up on the questions posed to suppliers?

Often you will discover that your task is much more than just including sustainability requirements into your supplier code, but that you have to rethink the whole concept on which your relationship with suppliers is based. You may need to think about changing your supply model considerably (see 5.1, especially the section on “Adapting the Sourcing Model to Make Sustainable Sourcing Possible”).

## 5.3 Supporting Farmers and Suppliers

What can you do to support your farmers and suppliers in meeting sustainability requirements?

In most cases, choosing a standard and simply imposing it on farmers and suppliers is not a realistic option. Farmers and other suppliers generally need motivation and support, especially during the first years, to implement a new standard. SAI Platform recently published a comprehensive and informative guide entitled “[Farmer Partnership Guide](#)” which explains the different hurdles and drivers to be considered for such purpose. These are classified along four categories: psycho-social factors (which



tend to be neglected in a lot of project and are yet key to the success of these projects); economic factors; resources factors; and political factors. The sourcing company's potential role depends on the character of the supply chain (refer to Part 5.1).

Cooperation between food manufacturing companies, farmers and intermediate suppliers often starts long before the question of supporting farmers in implementation arises. When companies develop their own company-specific requirements, cooperation usually starts with exploring best agricultural practices, as discussed above (see Chapter 4).

## 14. Supporting Sweet Corn Growers in France

### General Mills

[General Mills](#) is committed to minimising its impact on the environment by working closely with the agricultural community. Through its [Green Giant](#) brand, the firm develops and improves crop breeding and agronomic practices worldwide, such as higher yielding crops, reduced pesticide use and disease resistance.



### Working with sweet corn growers in France

The project with General Mills started in 2003 when [ARVALIS - Institut du végétal](#), a French research and extension farmer organisation, proposed that Green Giant develop a quality and sustainability charter for sweet corn production. All producers of Green Giant sweet corn have been certified under this charter since 2004.

The charter requires producers to:

- know the field, including its history in terms of culture, soil composition and inputs;
- adapt agricultural practices according to the specific characteristics of the soil;
- fertilise in accordance with established rules for quantity and usage;
- make irrigation decisions based on soil water content and/or water balance;
- maintain biodiversity around waterways and protect crops rationally by making a risk assessment and following a specific protection plan;
- serve and record 50 points of data related to the production area for at least five years (irrigation treatments applied, crops done, etc. );
- and conduct a self-assessment every four years to check compliance and progress against the charter.

Self-assessments are collected by ARVALIS - Institut du végétal and are used to track results and help propose changes in practices. A panel of the enrolled sweet corn growers is audited annually by a third party. Since 2012, more support is also given by ARVALIS – Institut du végétal to the new members of the charter, and ways of changing current agricultural practices are proposed to them.

The logo 'Maïs doux de France – Charte Qualité Environnement®' (Sweet corn France – Environment Quality Charter) was used in 2010 to acknowledge and promote the excellent work of sweet corn growers who operate under the principles of the charter.

Since the charter's implementation, most producers of sweet corn have seen the following results:

- a significant decrease in their use of water, fertilisers and herbicides/insecticides;

an improvement in their crop quantities;  
an increase in the quality of sweet corn;  
a significant economic benefit.

The implementation of the charter has proven to be a win-win for farmers and the environment.

Sources: [SAI Platform Project](#) and [General Mills](#)

## Supporting Sustainable Farming – not Single Crops (if applicable)

For a farmer producing different commodities, the ‘sustainability’ of a single commodity (e.g. dairy, corn, rice) is not the only issue. The farmer’s interest, and also that of the whole food and drink sector, lies in making entire farming systems sustainable everywhere. Support to farmers should thus take into account the whole farming system(s).

Moreover, implementation can only become a success if it creates value for both the farmer and for the sourcing company (see Chapter 1). As the options for offering a price premium to the farmer are limited, it is usually the case that adding sustainability requirements can only be successful if the farmer’s efforts are rewarded with added income or reduced costs. The following additional elements are therefore often found in projects with farmers and farmer organisations:

- **Improving farm economies:**  
Farmer support may include: better accounting and planning, promoting diversification, better use of farm inputs leading to better yields, etc. Financial support to farmers may be essential: pre-financing, risk-sharing, long-term contracting.
- **Improving product quality and security of supply:**  
Supporting farmers on implementing sustainability requirements can often be very well combined with improving quality and thereby creating value for all supply chain parties. Creating stable longer-term relationships with farmers who deliver high quality is an investment in supply security as well.

## 15. The Knorr Sustainability Partnership Fund

### Supporting Suppliers and Farmers

The Unilever [Knorr](#) company has set up the [Knorr Sustainability Partnership Fund](#) to invest in growers and suppliers on complex sustainable agriculture projects that they may be unable to tackle alone. Knorr invests 50% of any agreed project budget, matched by an equivalent investment from the supplier or the grower. This enables the supplier to try out new ideas and accelerate implementation of sustainable agricultural practices.



Knorr has committed to co-invest one million Euros with its suppliers and farmers in knowledge and equipment to accelerate the implementation of sustainable practices. Unilever’s direct suppliers make the application, but they can do so on behalf of a grower or group of growers working for that supplier. Evidence of an equivalent investment by the supplier or grower is required.

## Bringing Knowledge to Farmers and Suppliers

The fund gives priority to projects that:

- Bring new knowledge to the industry
- Bring suppliers together in a region to tackle a specific issue
- Are carried out in cooperation with credible universities/NGOs
- Deliver a positive return on investment for all stakeholders
- Are relevant to consumers of Knorr products and provide tangible stories.

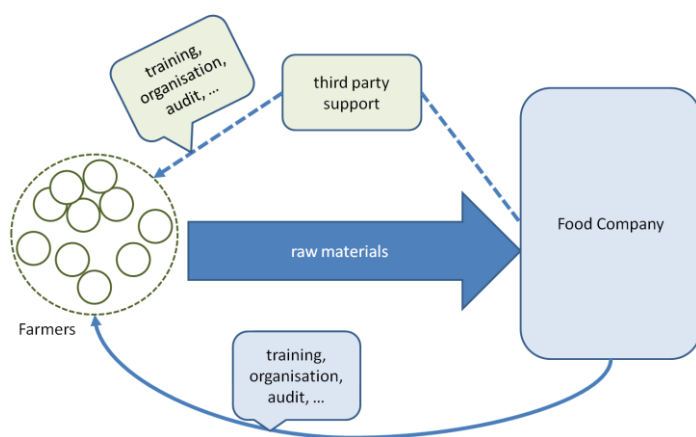
Projects supported by the fund focus on progress in the following areas:

- Farmer-led experiments for new knowledge (e.g. varieties, drip irrigation, precision agriculture, greenhouse gas mitigation/energy audits, waste management and soil protection);
- Biodiversity projects within a landscape/area or group of suppliers in the area;
- Ensuring water resources are protected and sustainable within a landscape/area;
- Phasing out the most toxic pesticides;
- Any other project that helps suppliers to meet the criteria of the Unilever Sustainable Agriculture Code (SAC):

Sources: [Website](#) and [Fund flyer](#)

## Support in a Direct Sourcing Situation

A direct sourcing situation is schematically represented in the diagram below. In this case, the food company sources directly from a (great) number of farmers and must provide support to the farmers and their organisation(s). Alternatively, the company may outsource this support to a third party.



**Diagram 10: Direct Sourcing**

This support can include:

- **training and extensions services to farmers:**  
This will generally include guidance and learning on much more than the implementation of environmental and social practices. It is part of the collaborative effort of the company and the supplying farmers to enhance quality, productivity and farmer income.
- **tools for self-assessment:**  
These play a vital role in jointly developing best practices, continuous improvement and, at a

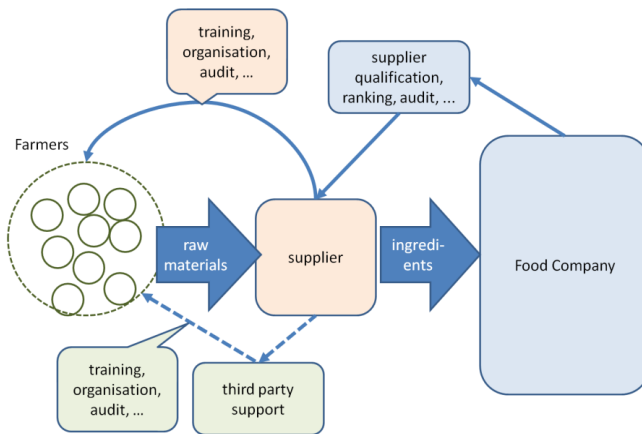
later stage, compliance with the firm’s standards for sustainable sourcing. See Example16 below.

### Support when Sourcing Through an Intermediate Supplier

When a company buys raw materials from suppliers (such as processors), it rarely assumes direct responsibility for supporting farmers. Instead, it can assist the direct suppliers in supporting farmers, with or without third-party support. This situation is schematically represented in the diagram below.

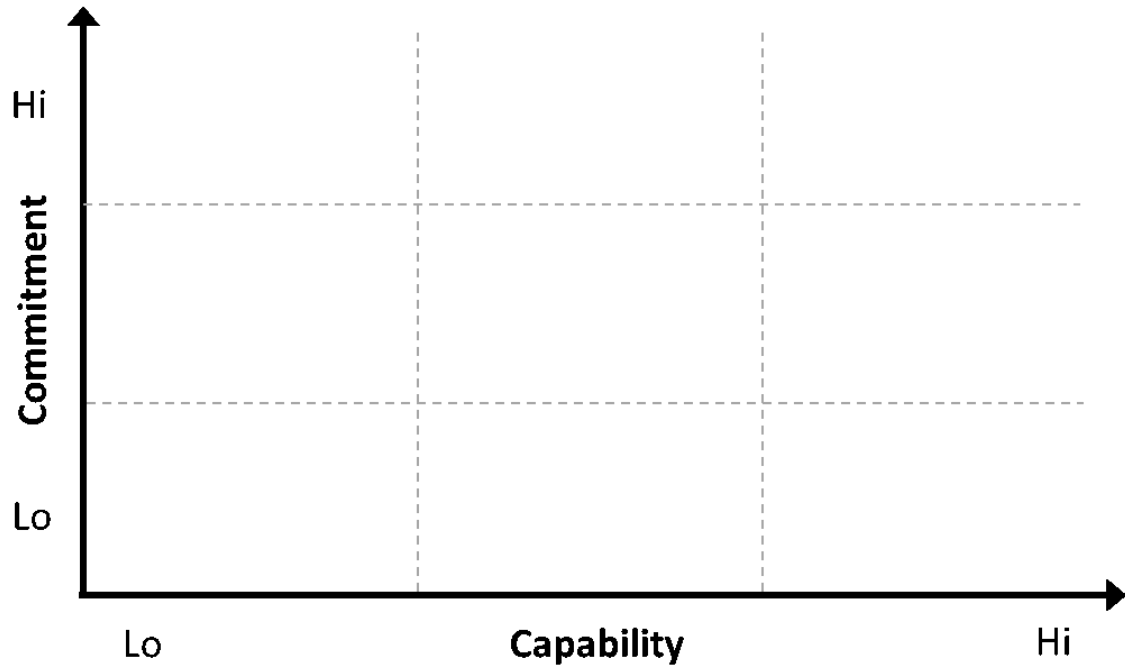
Useful components of this support are:

- providing training to suppliers;
- providing self-assessment tools to the suppliers;
- assisting suppliers with developing support to their supplying farmers;
- providing direct support to farmers even if the company does not source from them directly (refer to Starbucks, Example 5 already cited).

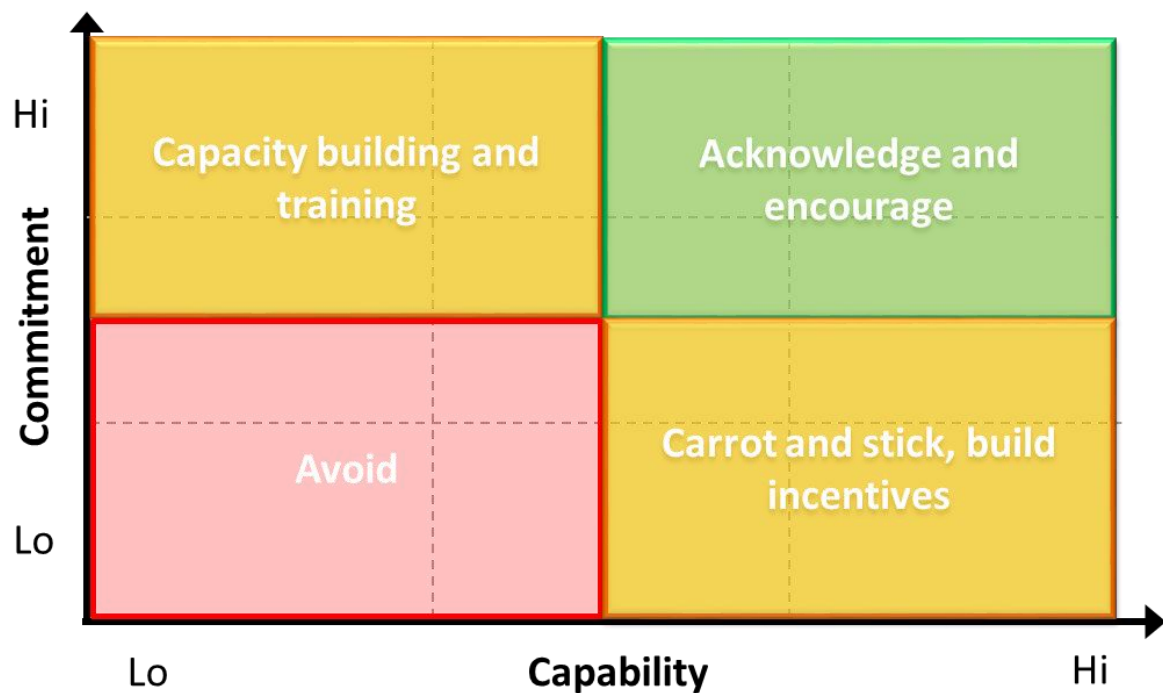


**Diagram 11: Sourcing Through an Intermediate Supplier**

A simple but powerful way to determine the best strategy for engaging your suppliers on sustainability is to “map” them using a simple matrix featuring their commitment to sustainable sourcing and their capability to implement it – such as the matrix below:



Once this has been done, you may use the below as guidance on how to best engage your suppliers in your sustainable sourcing programme:



### Who will Provide Support?

In some cases, the sourcing company itself can provide support to farmers and/or suppliers. In other cases, where the company does not have or does not want to build up the infrastructure required,

support can be provided better by external parties, such as standard/certification organisations (e.g. [Rainforest Alliance](#)), NGOs and consultants (e.g., Conservation International, Technoserve). An example of support provided by a third-party is provided in the case example below, which describes how BSR helps Walmart in training farmers in China – see Example16.

## 16. Green Farmer Training Project of BSR and Walmart China

### BSR and Walmart China’s Partnership

The Green Farmer training project that [Business for Social Responsibility \(BSR\)](#) is implementing in partnership with Walmart [China](#) aims at helping fulfil Walmart’s global goal to train one million farmers in its supply chain on food safety and sustainability. This gives BSR a chance to apply its supply chain experience to pilot a programme aimed at addressing the unique challenges and needs of a disparate group of farmers.

To design an effective training programme, BSR and Walmart China started out in the field, visiting sites ranging from pomelo farms in Fujian to vegetable farms in Guangdong Province. During each visit, the groups held in-depth conversations with managers, technicians, and farmers about what and how they wanted to learn. Each of these farms has unique challenges, due to the crop, soil type, production system, and the level of technical knowledge required, but most farms are relatively sophisticated and modern. The groups quickly realised that they wouldn’t be able to provide a standardised package of good practices but instead needed to match the farms with specific experts who could give them practical recommendations on what to do differently.

### A Five-Step Training Programme

BSR and Walmart China created a five-step process that is standardised in its approach but flexible by design to enable adaptation to local and specific needs:



#### 1- Identifying needs

The programme starts with a one-day needs assessment led by an expert facilitator who uses a variety of techniques, from in-depth discussions with farm technicians and managers to interactive voting exercises for a roomful of farmers, in order to understand the most pressing challenges and concerns at each farm. By the end of the day’s activities, the facilitator and farm manager agree on one or two priority topics for the first training.

#### 2- Finding the trainer

At this point, BSR identifies an agricultural expert who has the requisite knowledge, skills, and experience communicating to farmers who haven’t necessarily had much formal education. Ideally, the expert is based in the province for the local knowledge of agricultural ecosystems and specific pests and diseases, but also for the regional or local dialects spoken.

#### 3- Training

In addition to selecting a suitable expert and crafting relevant training materials, the training maximizes impact by focusing on a smaller group of key decision-makers. This allows provisions



of a much more in-depth and interactive experience, including field demonstrations, which allows those individuals to test and share their knowledge with others as part of their day-to-day work.

#### 4- Agreeing on actions to take

Towards the end of the two-day training, the expert and training participants are asked to identify a set of concrete actions that will be implemented. These discussions can get heated, as farmers debate and sometimes initially disagree on what might and might not work and what they are actually willing to try, before reaching a consensus.

#### 5- Measuring impact

After the training, BSR follows up with farmers to measure the programme's impact, i.e. both how far information has spread and whether practices have changed. Despite a few anecdotes of rapid change, such as one farmer who started building compost piles the day after the BSR training, the adoption of new practices in agriculture tends to be slow, governed by both the seasonal nature of production and the conservative nature of farmers in a risky business. In this context, the trainers don't expect dramatic results in the short-term but rather a more gradual adoption of better practices over time, as mindsets and skillsets change. In support of this longer-term approach, farmers are encouraged to stay in contact with the agricultural experts so they can ask questions about how to use alternative techniques or consult the experts on new challenges.

Source: <http://www.bsr.org/en/our-insights/bsr-insight-article/implementing-sustainable-agriculture-in-walmart-chinas-supply-chain>



Sometimes, support to farmers may be more effectively organised in collaboration with multiple private and public players, such as development organisations and (local) governments, certification organisations, NGOs and others.

## 5.4 Cooperation with Other Companies

Why should you cooperate in a pre-competitive manner with other companies to sustainably source a particular commodity?

There are two main reasons for which companies should seriously consider options for cooperation:

- Alignment of standards and certification

It is confusing and time consuming for farmers to have to comply with different (sustainability) requirements for different customers. Alignment of standards and certification systems is attractive to both farmers and the companies sourcing from them. If they can comply with a standard accepted by multiple companies, farmers reduce their cost of compliance and possibly reduce their dependence on a single company. For the interested companies, there is a chance that the sustainability criteria are better understood and met by the farmers, which may result in lower costs for the companies involved.

- Better support to farmers

If efforts to support the farmers in implementing the sustainability standard(s) can be coordinated and shared between various companies, more resources can become available and more results can be achieved at lower cost for each company.

Example 17 below shows how companies cooperate to achieve these two goals within [SAI Platform](#).



## 17. Cooperation Amongst Companies Within SAI Platform

### What is SAI Platform?

SAI Platform was launched in 2002 by [Groupe Danone](#), [Nestle](#) and [Unilever](#) who decided to join forces to “promote the development of sustainable agriculture worldwide”. Thirteen years later, the organisation has over 70 members – representing food and drink companies as well as producer organisations. Together and in a strict pre-competitive manner, these groups identify good agricultural practices (which are called “[Principles and Practices](#)” - P&Ps). Thereafter, they implement these P&Ps independently throughout their supply chains – using other supporting tools and services also jointly developed within the Platform.

### Alignment of Standards

At the start, the focus of SAI Platform members was to reach a common understanding of sustainable agriculture, and thereby to align on the definition of P&Ps for specific commodities. Drawing from key existing internal and external standards, companies jointly elaborated a very complete set of P&Ps along the economic, social and environmental pillars of sustainability. This was done for beef, combinable and vegetable crops as well as coffee, dairy, fruit etc. The P&Ps were tested on the ground through various companies’ pilot projects and programmes, and improved.

Many companies thereafter fully adopted these joint P&Ps or drew from them to elaborate or revise their own internal codes, often feeling that this made them stronger and more credible. Several firms reported that it was easier to ask their suppliers and the producers at the start of the value chain to comply with requirements that are similar to those of other buyers, rather than asking them to comply with a multitude of different codes.

### Support to Farmers

But member companies quickly felt the need to do more than align standards. Together, they chose to create other tools designed to help farmers implement the standards. A series of technical and practical tools were developed, such as an Agriculture Standards Benchmark Study, a Water Impact Calculator, a Financial Tool on farm sustainability etc.

Three specific tools were developed by the Platform members in order to help farmers assess their level of implementation of the P&Ps, and the sustainability impacts of such implementation:

- a concise and simple [Farm Sustainability Assessment \(FSA\)](#) to check compliance of their practices with the P&Ps;
- the [Sustainability Performance Assessment \(SPA\)](#) guidelines to measure the real impacts of practices on the sustainability of a farm.
- the [Farmer's Partnership Guide](#) to explain different hurdles and drivers classified along four categories: psycho-social factors; economic factors; resources factors; and political factors.

### And Many More...

Within SAI Platform, food and drink companies jointly develop many other products and services aimed at promoting sustainable sourcing. This guide is a good example of such other products. It is actually part of a bigger training programme which includes a two-day Master Class entitled “Embedding Sustainable Agriculture Strategies in Companies” jointly developed with the Swiss business school International Institute for Management Development (IMD) – see Example 21.

Since sustainable agriculture is a continuous improvement process based also on continuous learning, SAI Platform regularly organises seminars and webinars for its members, inviting experts from around the world to address the most important sustainability issues. Topics discussed at these events have included: soil health, sustainable pest management, water and agriculture, organic vs. sustainable, biodiversity.

Source: <http://www.saiplatform.org>.



Before deciding for or against cooperation with other companies, you may ask yourself the following questions:

1. Is my company clear on competition law?
2. Do other companies source from the same farmers as your company, whether the same raw material or another raw material from the same land (including rotation crops)?
3. Is there any opportunity to align your company's sustainability requirements with the requirements set by the other companies? What are the pros and cons?
4. Do these other companies already provide support to farmers to achieve sustainability requirements, or do they plan to do so? Do they have knowledge and/or capacities from which your own support activities could profit? Can your company bring in knowledge and/or capacities from which the potential cooperation partners can profit?
5. Is there a willingness on the part of the potential cooperation partners to work together on standard alignment and/or farmer support?
6. Are there any legal (especially: antitrust) or commercial barriers against cooperation in this field? If so, can they be overcome?

## 5.5 Monitoring Implementation

When implementing a sustainable sourcing strategy, it is crucial to monitor progress at farm and/or supply chain level(s) so as to ensure continuous improvement, and be credible about it.



## How do you monitor and/or evaluate implementation?

What to monitor and who is responsible for monitoring again depends on your company's targets and sourcing model. In the case of direct sourcing from farmers and/or farmer organisations, a company can more directly monitor implementation at farm level than in cases where it sources from processors or traders. In the latter case, the company can, apart from monitoring its suppliers, provide support for the suppliers to monitor progress at farm level. When too many smallholder farmers deliver to the company or to the company's supplier, though, it is generally not feasible to monitor the progress of each and every producer. Companies may thus choose to use a mix of self-assessments and audits (by the company and/or by external parties – see 4.9).

Self-assessment by farmers and other suppliers can be a powerful tool in implementing sustainability requirements. Many methodologies are in use, some of which are open source and available to any company that is interested. Interesting examples are:

- **McDonald's Environmental Scorecard and MAAP:**  
developed in cooperation with the NGO Conservation International to track improvement of McDonald's suppliers' practices. Another scheme used by the company is the [McDonald's Agricultural Assurance Programme \(MAAP\)](#), whereby suppliers provide raw materials under certain farm assurance schemes;
- **P&G's Supplier Environmental Sustainability Scorecard:**  
open source tool developed in cooperation with the [World Resource Institute \(WRI\)](#) and the [World Business Council for Sustainable Development \(WBCSD\)](#). The [scorecard](#) is used to measure and reward improvement over time in key environmental sustainability areas;
- **Muddy Boots' Software Tools:**  
for farmers to record and communicate their field activities.<sup>4</sup>
- **Keystone Alliance's Fieldprint Calculator:**  
to help US growers benchmark their own economic performance and sustainability with an [internet-based tool](#) (see Example 18 below).

## 18. How Sustainable is my Farm? Field To Market

### Alliance for Sustainable Agriculture

[Field To Market®](#), The Alliance for Sustainable Agriculture, was launched by the non-profit [Keystone Center](#) - a diverse US-based initiative that joins producers, agribusinesses, food companies, and conservation organisations seeking to create sustainable outcomes for agriculture. Members include major food companies, food traders/processors, input providers, farmer associations and major retailers (who joined recently).

Field To Market is developing indicators to estimate the environmental, economic, social, and health outcomes of agriculture in the United States.

### Fieldprint Calculator

[The Fieldprint Calculator®](#), first launched in 2009, is an interactive online tool for education and awareness, which explores relationships between management practices and outcomes. The Fieldprint Calculator helps growers assess corn, wheat, soybean, cotton and rice operations in terms of land use, biodiversity, soil conservation, soil carbon, water use and water quality, energy use and greenhouse gas emissions.

Using the tool requires the following steps:

1. Login;
2. Enter field information;
3. Test scenarios;
4. View your fieldprint;
5. Analyse your economics.

### Understanding Economic and Environmental Benefits

Using the Fieldprint calculator, The Coca-Cola Company and conservation partners are helping 50 corn growers in the Paw Paw River watershed (Michigan) measure and ultimately improve production and natural resource management practices for profitability, farm resource efficiency, and ecosystem services such as groundwater recharge. The web-based educational tool allows growers to compare their farm performance against regional averages in land use, soil conservation, soil carbon/organic matter, irrigation water use, energy use and greenhouse gas emissions.

"Using the Fieldprint Calculator has been eye-opening. The tool allows me to rethink how we do specific tasks on our farm. Looking at graphs of our farm's data helped me recognise where we could improve our sustainability," said Brian Marshall, a corn and soybean grower in Maysville, Mo. "As a grower, I know my farm is being compared to the average for farms in our county which makes the data more relevant to us. It is easy to get started and I encourage all growers to take advantage of the economic and environmental benefits this tool provides."

<sup>1</sup> <http://en.muddyboots.com/on-the-farm>





- **Sedex Information Exchange (Sedex)**

Sedex is a unique and innovative supply chain management tool, helping companies to identify, manage and mitigate ethical risks in global supply chains. A not-for-profit membership organisation that operates the world’s largest collaborative platform for sharing ethical supply chain data, Sedex was founded with two main goals: to ease the burden on suppliers facing multiple audits, questionnaires and certifications, and to drive improvements in the ethical performance of global supply chains. (See Example 19 below).

## 19. The Case for an Information System for Data Exchange

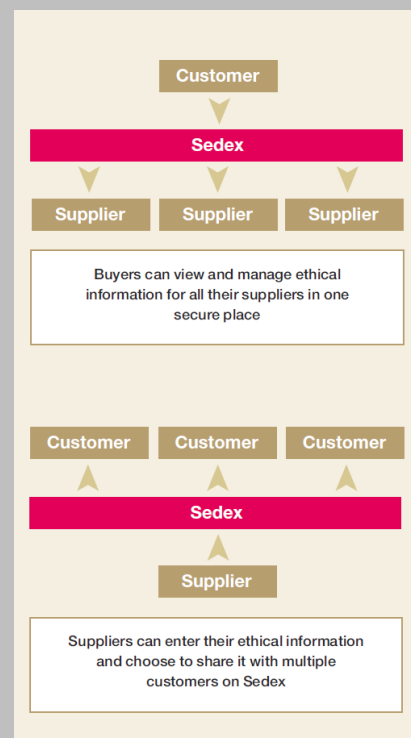
### Sedex: Supplier Information Exchange

[Sedex Information Exchange](#) is a unique and innovative platform helping firms to manage ethical supply chain risk and streamline the challenging process of engaging with multi-tier supply chains.

As the largest collaborative platform for managing ethical supply chain data, Sedex engages with all tiers of the supply chain with the aim of driving improvements and convergence in responsible business practices.

Through a secure online platform, Sedex members can share and manage information related to Labour Standards, Health & Safety, The Environment and Business Ethics. Members also have access to a range of resources and reports, including industry specific questionnaires and market leading risk analysis tools, developed with global risk experts Maplecroft.

**For buyers,** Sedex offers an online system for collecting and analysing information on ethical and responsible business practices in the supply chain. The system enables buyers to run reports on a variety of ethical supply chain data and track suppliers’ progress on key issues. In addition, a Risk Assessment tool helps companies to identify the likelihood of risk in their supply chain and prioritise resources to effectively manage this risk.



### Membership categories

**A**

view and run reports on your suppliers' data

- > retailers
- > consumer brands
- > government organisations
- > charities

**AB**

enter and share ethical data for your sites; view and run reports on your suppliers' data

- > first tier suppliers
- > large manufacturers
- > agents
- > importers
- > service providers

**B**

enter and share ethical data for your sites of employment

- > farms & growers
- > factories
- > small manufacturers
- > production sites

**For suppliers,** Sedex provides an efficient way of sharing ethical information with multiple customers. This helps to cut down on unnecessary paperwork, saving companies time and money. Suppliers complete a self-assessment questionnaire and can choose to share this with multiple customers on Sedex, along with any other relevant ethical information, such as audit reports, certificates and corrective action plans. By allowing suppliers to share the same data with many customers, Sedex helps reduce the need for multiple audits, allowing both parties to concentrate on making improvements.

*"Sedex is a vital business tool for Tesco. Dialogue with our industry peers also helps us ensure our systems and activities don't duplicate work that is already taking place."*  
Giles Bolton, Tesco (A member)

Sedex members span over 150 countries and many sectors, ranging from small independent farms to some of the world's largest retailers and consumer brands.



## 5.6 Impact Assessment

How can you be sure that your sustainability efforts have a positive impact?

Suppose you have set sustainability criteria, which may or may not be based on external standards, for sourcing from sustainable agriculture and that compliance to these standards has been checked systematically by your own company and, in addition, by external auditors and certifiers. The next questions are: has your sourcing factually contributed to sustainability? More specifically, you must ask

yourself questions such as: Has biodiversity profited? Have you contributed to the reduction of GHG emissions? Have farm labourers got better living and working conditions? Are your farmers better-off financially?

The discussion on the real impacts of implementing sustainability standards, certifying production and supply chains is often triggered by cases in which negative impacts occur despite high standards and stringent certification. Although such cases do not allow for the conclusion that certification on the basis of the sustainability standard does not have positive sustainability impacts, standards and certification systems are increasingly, and not unreasonably, under pressure to prove their positive impact on the ground.

There are therefore good reasons to undertake systematic assessments of the impacts on the ground of implementing sustainability standards. The impacts cannot be measured on the level of single farmers or single suppliers only. Neither can they be attributed to the supply chains of single companies. As a rule, impact assessments will require cooperation between standard owners, certification systems, private sector companies and governments.

Some impact assessment tools have been developed by various organisations, which can help your company. These include:

- [SAI Platform's Sustainability Performance Assessment \(SPA\)](#);
- [FAO's Sustainability Assessment of Food and Agriculture systems \(SAFA\)](#) Guidelines;
- [Guidelines from the Committee on Sustainable Assessment \(COSA\)](#).

## 6. Adapting the Company's Business Culture, Processes and Structures



Once you have set up your company's sustainable sourcing targets in terms of priority raw materials (Chapter 3), standards to pursue (Chapter 4) and ways to integrate these in your firm's supply chains (Chapter 5), you need to do some work on adapting your company's business culture, processes, structures and managerial behaviours to the new tasks ahead.

How can sustainable sourcing best be supported by your company's culture, structures, processes and managerial behaviours?

Before anything else, make sure that contradictions between sustainability strategies at board and top management level, and real company life on the ground are critically examined and, where needed, adjusted. Are the beliefs expressed by board and top management compatible with the mindsets of the executing managers – generally the procurement managers within the company?

In this chapter, the following six questions will be answered:

- 1. Are the right corporate culture and value systems in place in order to deliver your strategy?**  
Corporate culture is the sum total of beliefs and values that affect behaviours of employees. It acts as an important backdrop to which the sustainable sourcing strategy must be anchored.
- 2. How do you implement sustainable sourcing on an organisational level?**  
A company has to make decisions on a time path and goalposts for the implementation process. Generally, it is advised not to try to implement everything at once, and to follow a carefully planned roll-out process.
- 3. How do you (re)define responsibilities and tasks relating to sustainable sourcing?**  
Substantial changes may be needed in the sourcing process and the related tasks and responsibilities, and potentially in internal relationships between departments. Traditional corporate social responsibility (CSR) tasks may be partly transferred to operational sourcing and procurement departments, for example.
- 4. How do you develop the new skills required within the company in order to successfully implement sustainable sourcing?**  
The daily work of the procurement manager will be impacted. New skills will be required.

Managers may have to develop informal skills such as conflict resolution, ability to manage dialogue and facilitate stakeholder discussions. Training suppliers, for example, implies a coaching function, and additional auditing skills. These skills may be acquired either by training existing staff or by hiring new people with the requisite skills.

5. **How do you reward managers' efforts and performance with respect to sustainable sourcing?**

Rewarding managers for their efforts and for their performance in sustainable sourcing will help deliver your company objectives. Make the achievement of specific sustainability targets a part of all personal development objectives, especially management.

6. **How do you secure the organisational resources required for sustainable sourcing?**

Sustainable sourcing may require additional resources, especially in the start-up phase.

## 6.1 Corporate Culture, Values and Effects on Managerial Mindsets

Are the right corporate culture and value systems in place in order to help deliver your strategy?

You will have found that the most prevalent *external* barrier to embedding sustainability strategies of any sort relates to the tension between short-term pressure for profit from shareholders and customers, and the longer-term objectives of your sustainable sourcing strategy. This has a substantial effect on the value systems within firms. You will therefore also find that the greatest *internal* barriers relate to managerial mindsets (both short-term oriented, as well as fixed, e.g.: 'Sustainability doesn't sell'), lack of adequate value systems to embrace the strategy, and sometimes important related knowledge gaps – even misconceptions – that are influencing the views of executives about the sustainable sourcing strategy.

Mindsets and managerial value systems are overall highly influenced by the following factors which you should take into account as you implement your sustainable sourcing strategy:

- **Lack of alignment of the overall business strategy:** This is not merely a side issue. Many firms make the assumption that the requisite culture and value systems are in place to ensure strategic roll-out when, in fact, they are not. Companies who are true to a "raison d'être" which includes but also goes beyond short-term financial considerations, and where stakeholders understand not only what the company does but also the core principles guiding its work, have a competitive advantage in today's world. Walking the talk is a key strategic consideration for companies today, especially in a highly networked, social media savvy society. Your strategic embedding process in sourcing will certainly be compromised unless overall strategic and structural issues are properly addressed.
- **Pervading national and company cultures:** Obtaining the "right corporate culture, - one that is open and receptive to the complex concepts of sustainability – is one of the greatest challenges for the alignment of an organization behind sustainability objectives. Some companies have a long history of innovative leadership inspired with goals and a vision expressing concern and respect, not only for consumers but also for employees and communities. [Unilever](#), [Danone](#) and [Cadbury](#) are examples of such companies. Furthermore, although companies intending to embed sustainable sourcing strategies

may express a fairly uniform desire to implement social and environmental standards, national culture may be a facilitating factor. For example, the consensus building non- “top down” management approaches common in Scandinavian countries have proved conducive to embedding sustainability strategies, including those around sourcing.

- **Degree to which the company has already developed and rolled out sustainability strategies:** Clearly if the company has already acquired experience in implementing sustainability somewhere else in the business, the learning can be invaluable for the sourcing strategy. Make it your business to investigate the promoting factors and barriers involved in that other activity. Sustainability strategies gain enormously from the knowledge brokering and sharing of learning within organizations;
- **Relative closeness of the company to customers:** It is not rocket science that there is no greater motivating factor for fast track embedding in business than a customer indicating strategic preferences directly to a supplier. For this reason, the most proactive companies on sustainable sourcing in today’s world, are customer-facing companies. Stakeholder pressure goes up the supply chain, not down. Listen to your customers and use the messages they are communicating to your best advantage.
- **Managerial level:** Changing behaviours of middle managers, in particular, is a challenge. There is often scepticism amongst managers about the added value of sustainability strategies, with fear of high costs and little or no return. It can translate into a “What’s in it for me?” mind-set. Interestingly middle managers can be sceptical of perceived “trends” picked up by senior managers. Unless sustainability is an integral part of the corporate DNA across levels and functions, there is resistance and behaviour does not change. For this reason, consistent values and business principles are important. They introduce a simple basis for how people do business. If they exist, then you can constantly remind managers of the basic values and principles underlying your corporate culture and behaviours.
- **Difference in degrees of awareness between departments:** It will be to your advantage that procurement departments tend to understand the issues and urgency of having a sustainable sourcing strategy much sooner than, for example, finance or marketing/sales departments. The reason for this is that the direct impacts of sustainability issues (overall increasing resource scarcity, commodity price variability owing to environmental or social factors) are actually first felt in procurement departments. However, important other parts of the organization will need to be brought on board;
- **The connectivity between departments:** Interestingly, you may think that you are one and the same organization, working on the same overall objectives, but when you really think about it, you may find that important departments are perhaps not linked in the way in which they should be. Do you have, for example, in-firm silos? By this we mean departments that are operating on some level independently and perhaps even counter to your sustainable sourcing strategy. Think about the departments and individuals you need to engage with to bring them over to your side. But remember, you have a selling job to do: convincing people in a bottom up way. If you choose the wrong level of abstraction to sell the concept, progress will be immeasurably slow. You will need to speak in a language that others understand;
- **The degree of empowerment of the human resources department:** There are a few issues here. Firstly, approaches to recruitment need to be looked at. If a company has already recruited executives with the requisite mindset and passion for sustainability, then its half the battle won. Once on board, reward and recognition systems related to achievement of the strategic goals – including the sourcing strategy – greatly facilitate the way to success. Thirdly, training and executive development is essential



to ensure that key functional managers understand and “live” the defined culture and values, as enabling factors for the company’s vision, mission, and strategic objectives. Many companies trying to embed sustainability strategy make the mistake of not assessing the above-mentioned issues and do not make a conscious effort to change the corporate culture and organisational mindset before implementing sustainability strategy. This means that you may find yourself in the position of “pushing water uphill” unless your human resources department is empowered and engaged to work alongside you in changing or modifying the internal value systems.

A good example on how a company adapts its culture to reach a sustainable sourcing objective is provided by Example 20 below:

**20. Unilever: Creating the optimum company culture for achievement of an ambitious sustainability strategy**

As sustainability challenges escalate around the world, the outcome will depend in large measure on the behaviour of individual people, including managers within corporations. Managerial behaviour reflects corporate culture but also personal value systems. Paul Polman, CEO of Unilever was highly aware of this when the company developed The [Unilever Sustainable Living Plan \(USLP\)](#), a blueprint strategically targeted to double the size of Unilever’s business, whilst reducing environmental footprint and increasing positive social impact.

**OUR VISION IS TO DOUBLE THE SIZE OF THE BUSINESS, WHILST REDUCING OUR ENVIRONMENTAL FOOTPRINT AND INCREASING OUR POSITIVE SOCIAL IMPACT**

**UNILEVER SUSTAINABLE LIVING PLAN**

In an uncertain and volatile world, we cannot achieve our vision to double our size unless we find new ways to operate that do not just take from society and the environment.

Launched in 2010, the Unilever Sustainable Living Plan is our blueprint for sustainable growth. The Plan is helping to drive profitable growth, reduce costs and fuel innovation.

Our Plan sets out three big goals. Underpinning these goals are nine commitments supported by targets spanning our social, environmental and economic performance.

**IMPROVING HEALTH AND WELL-BEING FOR MORE THAN 1 BILLION**  
By 2020 we will help more than a billion people take action to improve their health and well-being.

**REDUCING ENVIRONMENTAL IMPACT BY 1/2**  
By 2020 our goal is to halve the environmental footprint of the making and use of our products as we grow our business.

**ENHANCING LIVELIHOODS FOR MILLIONS**  
By 2020 we will enhance the livelihoods of millions of people as we grow our business.

Our plan is distinctive in three ways. It spans our entire portfolio of brands and all countries in which we sell our products. Secondly, it has a social and economic dimension – our products make a difference to health and well-being and our business supports the livelihoods of many people. Finally, when it comes to the environment, we work across the whole value chain – from the sourcing of raw materials to our factories and the way consumers use our products.

**Unilever’s Greenhouse Gas Footprint**

21%	2%	2%	4%	70%	1%
Raw Materials	Manufacture	Transport	Retail	Consumer	Disposal

Within the USLP, Unilever’s ambition is for sustainable agricultural production to become the mainstream, as an optimum way to help to end hunger, achieve food security and improve nutrition (also as one of the global Sustainable Development Goals). The world needs to double agricultural productivity and increase the incomes of smallholder farmers. Since Unilever is among the largest purchasers of crops such as tea, palm oil and vegetables, it considers that it has a significant role to play in achieving that.

But internally, Unilever is asking itself many questions. What are the value systems and characteristics of corporate culture that need to be put in place and/or reinforced at Unilever to

induce leaders and managers to change and facilitate delivery of its USLP strategy? How can Unilever promote and enhance the optimum corporate culture and value systems for USLP strategy alignment? And what is the role of the Human Resources Division, in recruitment/selection, policy-making, training and in developing reward/recognition systems that reinforce culture and value systems that best promote success with the USLP?

Of the top key opportunities for change identified, Unilever felt that five were areas that required more attention within the organization: two were related to the “hardware” of the organization; two to the “software” and one right at the heart of both.

Hardware:

- 1) Senior leadership alignment to the strategy
- 2) The implementation of appropriate performance metrics and related management management systems

Software:

- 3) Attracting and developing top talent
- 4) Embedding the strategy in core decision-making and business processes

Common to both “hardware” and “software” dimensions is the need for what Unilever terms “winning hearts and minds”. This relates to all layers within the company, and to all functional areas.

In order to leverage these opportunities for change, Unilever realized that empowerment of the human resources division of the company is of fundamental importance, since recruitment, training, executive development and the putting into place of appropriate reward and recognition systems (and stringently monitoring them) is a core responsibility of human resources units. In Unilever’s view, the corporation of the future will increase its competitiveness and readiness to deal with threats around raw materials supply (amongst many other things) by having appropriate systems in place.

Key ingredients are the setting up of guiding principles for corporate values. Training related to these principles should be incorporated in all executive development and training programmes.

You may consider sending employees in key company positions to already existing executive training on sustainable sourcing – a good example is the [IMD-SAI Platform Master Class](#) where professionals can learn how to build and roll out business cases for sustainable sourcing but also, crucially, how to win over internal stakeholders and work on changing mindsets within the firm. You may also consider adapting already existing material, and/or developing new materials for new programs, and having human resources (HR) providing in-company courses. For more information on changing mindset, see Example 21 below.

## 21. The IMD-SAI Platform Master Class Workshop: Changing Mindsets

Any business project will face the same challenges; winning people over to your point of view is never an easy proposition. Sustainable sourcing is no exception. Industry research carried out by the Center for Corporate Sustainability Management at [IMD](#), one of the world's top business schools, has indicated that the biggest internal barriers to aligning organisations behind sustainability strategies are related to short-term or fixed mindsets, organisational culture and sometimes gaps in knowledge within organisations and amongst managers. The [Sustainable Agriculture Initiative \(SAI\) Platform](#) has also investigated hurdles to implementing sustainable sourcing strategies in firms and observed the same problem.



To build effective internal networks to help implement the strategy, it is essential to convince key stakeholders within the company to take action. To reach those key stakeholders, think first about the different types of network that are operational within your firm. They may be work networks, expert advice networks, strategy or innovation networks, decision-making networks or most powerful of all, trust or social networks (more informal). Remember that the networks that you may think are most influential are often not those that have the real power. In fact, research has proven that informal networks are the most powerful overall.

Once you have identified the key stakeholders and networks, you must decide what you want from them – as with all change initiatives – through a process of awareness, building interest, evaluation and trial, and finally adoption of your sustainable sourcing strategy. Next, identify the key stakeholders within those networks that are currently for or against your strategy, and how you can target them. Remember that up to 70% of people in organisations are actually “bystanders” that can be swayed if you or your allies are convincing enough with your strategy. In other words, use your networks to find the right people to help you to leverage supporters.

But how do you make sure that managers really understand and live the sustainability values of your firm? One way of anchoring interest and getting everyone on the same page is “learning by doing” (see next section). Many companies launch pilot projects that are not only a testing ground for initiatives in sustainable sourcing, but also serve as a way to engage managers. Pilot projects with multi-functional involvement effectively get managers involved speaking the same language and they begin to gradually understand the complexity and uncertainties that the company is dealing with. They also begin to comprehend better the risks and opportunities involved and can become your allies in pushing for further investment in sustainable sourcing. Just make sure that you do the analysis in advance and identify the critical internal stakeholders.

## 6.2 Roll-Out

- **How do you implement sustainable sourcing on an organisational level?**

Your company has chosen a sustainable sourcing strategy and set the level of sustainability standards for (selected) commodities. For example, there might be a target to source at least 75% of palm oil from RSPO certified sources within three years, to source all dairy according to the internal company standard or to upgrade coffee sourcing from a basic level towards a higher standard. Unless you source all of these raw materials directly, most of the work will have to be done not by your own company, but by the suppliers and the suppliers' suppliers. Naturally, if your company is sourcing directly from farmers, it will be much more involved in the implementation work than if it sources more indirectly through suppliers and traders. The roll-out process will therefore be very different for different companies. The following questions and guidelines should therefore be interpreted according to your company's situation and tradition.

- **Do you have the right people on board to roll out sustainable sourcing?**

Depending on your firm and your position, the answer to this question will vary considerably. In any case, you will need support from top management. Good cooperation between the sourcing side of the company, production, marketing and public relations departments is often an essential success factor.

- This guide starts from the assumption that top management has made a decision in favour of sustainable sourcing already. However, top management support has to be re-confirmed time and again throughout the process. It is essential to secure that support for your selection of raw materials and sustainability requirements (standards) before starting the roll-out process on any scale. It is also essential to create an information feedback loop through key managers so that top management is kept informed of progress/sticking points/success stories. Remember, these are important ambassadors that serve in outreaching your strategy and changing organisational mindsets.
- Are you sufficiently involving the departments / people on the marketing and production side of the company? For example, if you want to go for certified raw materials, have you agreed on a marketing strategy whereby you would use certification in the company's consumer communication and link it to a specific brand?

- **Consider the development of well-understood best practices before going for a standard:**

Fixing a standard at too early a point of time may be counter-productive. It can be more useful to develop and try out some best practice guidelines first. By doing that, the company can learn more about the ease or the difficulties of implementing certain requirements and about the farmers' readiness to follow them. Only after gathering such experience, may it be wise to develop a standard from these requirements.

- **Carefully weigh up the advantages, disadvantages and the timing of certification:**

Certification is generally recommended after one has gathered enough experience with implementation. Therefore, it is not usually included in the early phase of a roll-out scheme.

- **Use pilot projects in the roll-out process:**

It can be useful to start with a number of pilots with selected suppliers and/or farmers in selected sourcing regions or countries, before setting and rolling out a standard. Once the pilots have been evaluated, the standard can be fixed and rolled out with more suppliers and

farmers. Depending on the company, the raw material(s) considered and the market conditions, there are many options on how to proceed:

- start the roll-out process for one particular brand, before including other brands;
  - start with sourcing from one region or country, before including other ones;
  - start with one or two priority commodities before dealing with others. Start with the “easy-wins” that will give you some initial traction and establish your first pilot projects if possible with the most-engaged or strategically most-important suppliers.
- **Think about replicability and scalability from the very beginning:**  
Although it is useful to start with a limited number of pilots, it is important to consider the issue of scalability from the very outset. Sustainable sourcing cannot be based on small-scale pilot projects. Any pilot project you establish should have the potential to be scaled up to standard practices that can be applied to mainstream sourcing strategies.

## 6.3 Tasks, Responsibilities, Skills and Rewards

### Responsibilities and Tasks

How do you (re)define responsibilities and tasks relating to sustainable sourcing?

Sourcing agricultural raw materials sustainably will not only create additional work but it will also change existing tasks and responsibilities. In some cases, the change is modest (just the ticking of some boxes on a purchase order). In other cases, tasks and responsibilities may radically change, especially where sustainable sourcing requires new sourcing methods, and/or new ways of dealing with suppliers and farmers. This structural change will have to go along with changes in the managerial mindset, as discussed above. Changes are likely to happen along different axes:

1. **The tasks of sourcing managers may change because of changed relationships with suppliers**  
Managers responsible for sourcing may be called ‘purchasing managers’, ‘procurement officers’ or ‘buyers’, depending on the firm. The implementation of sustainable sourcing may cause their job to change considerably. In many cases, sustainable sourcing will imply more direct involvement with suppliers and/or farmers. The nature of the negotiation process between sourcing managers and their suppliers may become very different, especially if the company strives for long-term stable relationships and more direct influence on farming practices. Managers who were used to concentrating on price negotiations and a desk based job may be required to deal more directly with agricultural issues in closer contact with farmers, for example. Increasingly, sourcing managers will have to ask themselves what they can offer to the farmers in exchange for their sustainability efforts. Sourcing managers in some companies will have to learn how to sell their services to the farmers in addition to buying raw materials from the farmers.
2. **CSR departments may need to work closer than before with sourcing departments**  
In many firms, sustainability issues, including sustainable sourcing, were formerly dealt with, or are still being dealt with, by Corporate Social Responsibility (CSR) or Corporate Sustainability departments. As a rule, these departments have a strong communication and Public Relation

focus and may primarily have been set up to deal with brand and reputation issues. In order to deal effectively with sustainable sourcing, it may thus be useful to transfer responsibilities from the CSR department to the sourcing department. More generally, CSR departments or communications/media teams may need to work much closer than they did before with procurement departments as through sustainable sourcing, a business comes under greater scrutiny by consumers and society in general. Questions to ask yourself in order to make an informed decision are:

- a. What capacities will be needed for sustainable sourcing, both during and after the roll-out phase?
- b. What are the current capacities of the CSR department? Are people in the CSR department dealing with sustainable sourcing issues?
- c. What capacities relating to sustainable sourcing are available in the sourcing department(s)?
- d. Is there an opportunity for changing responsibilities and/or transferring capacities from CSR to sourcing or procurement department(s)?

## Skills

As the sourcing manager's tasks change (see above), he or she will need more or different skills.

How do you create the new skills required in the company to successfully implement the sustainable sourcing strategy?

In order to answer the above question, it is useful to answer the following sub-questions:

1. **What changes to the sourcing managers' tasks are expected as a result of implementing a sustainable sourcing strategy?**  
This has been discussed in the previous section above.
2. **What other skills will the sourcing manager need to acquire?**  
The manager may need more agricultural knowledge or at least access to such knowledge. He/she may also need other negotiation skills than he/she has been using before.
3. **What is the most effective and efficient way to acquire the new skills needed?**  
Several options may be explored, including:
  - a. organising internal training or external training for sourcing managers;
  - b. hiring new people for sustainable sourcing positions;
  - c. outsourcing (parts of) sustainable sourcing to external companies, consultants, etc.;
  - d. acquiring a company with more experience in sustainable sourcing;
  - e. signing up to a platform that provides business tools and resources to assist staff.
4. **What changes in the managerial mindset are required in this context?** See 6.1.



## Rewarding

How should managers' sustainability efforts and performance be rewarded?

There are a lot of intangible benefits to be reaped from implementation of any sustainability strategy, including one on sustainable sourcing. When they are doing things that relate to a higher societal purpose, are meaningful and enable them to “do the right thing”, many executives will experience, in any case, higher job satisfaction (people generally cherish having an opportunity to ‘do the right thing’). Furthermore, knowing that they have their bosses support and backing when it comes to managing conflicts between sustainability and more operational targets is an important indirect reward for collaborative efforts. Senior managers should also acknowledge and show appreciation for individual or team sustainability achievements. All of these factors help create a company culture in which sustainability is perceived as being taken seriously. When employees know that their employer values things that they themselves value in their personal lives is a great motivator. Do not forget either that sustainability opens up new career options for executives also through developing new skills, competencies, and relationships, etc.

However, incorporating responsibility for achieving targets in sustainable sourcing or related to the sustainable sourcing strategy in managers' job descriptions, job reviews and reward systems is a major prerequisite for mainstreaming the strategy in the organisation. This ensures that action happens from the bottom up, without direct continuous top management intervention. The positive offshoot of mainstreaming in this way is that managers come up with creative and innovative solutions based on their practical experience in operations and in the field.

To achieve a sustainable sourcing strategy, companies may decide to reward managers, especially sourcing managers, for their efforts or performance with respect to sustainable sourcing. This can be done by adding aspects of ‘sustainable sourcing’ to the manager's personal goals. Some companies have developed tools that set specific targets that are tied to corporate audits and the yearly bonus system so that the sustainability sourcing strategic objectives become part of everyday operations. The way you may do this strongly depends on your company's systems and traditions for reward and bonus systems. Developing the performance indicators that will allow assessment to take place is an important part of the process, as this facilitates the linking to recognition and rewards.

General suggestions for how to build sustainability criteria in reward systems were formulated by WBCSD, based on a wealth of practical experience from many companies – see Example 22 below.

## 22. Linking Sustainability to Pay

### The WBCSD Report Summarises Practical Experience

In 2011, the [World Business Council for Sustainable Development \(WBCSD\)](#) published a report on “Linking Sustainability to Pay”. It contains many practical examples of the way firms offer incentives to employees to support a sense of ownership and accountability for sustainability goals. Although the issue is much broader than sustainable sourcing only, the examples given and the advice related to them are highly relevant in the context of this guide.



Examples show a variety of strategies and instruments used to reward efforts for sustainability, including the use of balance scorecards, the integration of environmental performance criteria in HR objectives, linking executive pay to contributions to targets in the company’s sustainability or product stewardship programmes. The instruments used by these companies are very much reflecting the wide variety of company cultures.

### Questions to Ask

The report provides suggestions for answering central questions when designing sustainability incentives:

- **When to start?**
  - before an issue becomes a financial driver?
  - after the link to financial performance is proven?
- **What to focus on?**
  - overall performance of the corporation?
  - individual business units or teams?
  - one or two sustainability priorities?
  - a broad basket of issues?
- **What to measure?**
  - competencies, actions or results?
  - internal or external benchmark of success?
- **How to motivate?**
  - long-term bonus?
  - non-financial rewards?

Source: [People Matter Reward – Linking Sustainability to Pay](#), WBCSD 2011

There is also potential to include sustainable sourcing achievements as a factor in in-company awards for innovation. This diversifies the focus of such schemes, adding to the existing criteria of marketplace success and roll-out and could change the way managers in the company view the sustainable sourcing strategy.

## 6.4 Resources

How do you secure the organisational resources required for sustainable sourcing?

Implementing a sustainable sourcing strategy requires allocation of sufficient human and financial resources. The company's decision to implement sustainable sourcing is based on the expectation that it is possible to create the business case for it and roll it out successfully. Allocation of resources is motivated by the expected benefits of sustainable sourcing (see Chapter 1).

It is important to clearly distinguish between investment costs in the start-up phase and longer-term operational costs. Some of the resources are needed for developing sustainable sourcing in the start-up phase, which can be seen as temporary investment costs. Once sustainable sourcing has become part of normal organisational structures and processes, operational costs can generally be limited.

You may want to ask yourself the following questions, related to both expected benefits and costs.



### Expected Benefits from Sustainable Sourcing

1. How will your company's brands and reputation benefit and even profit from sustainable sourcing?
2. What benefits can be expected from improved supply security and/or from assuring better qualities supplied?
3. What cost reductions (at the farm, in the supply chain) can be realised by improving supply chain management for sustainable sourcing?
4. What additional benefits can be expected?

### Resources during the Start-Up Phase (rolling out sustainable sourcing)

5. What is your time schedule to roll-out sustainable sourcing (for selected raw materials)?
6. What main activities call for allocation of (additional) resources in this phase? For example:
  - a. organising internal processes/structures for sustainable sourcing;
  - b. assisting suppliers and/or farmers to switch to sustainable agriculture;
  - c. cooperating with third parties (eg agricultural specialists, certification organisations);
  - d. implementing certification systems;
  - e. developing marketing and communication materials e.g. Supplier Terms of Trade, Code of Conduct, Supplier Guidance Packs etc.;
  - f. developing training and engagement activities;
  - g. setting up helpdesks for questions;

- h. setting up and running the first stakeholder dialogue workshops with farmers, other managers etc.
7. What are the human resources needed in this phase? Which resources are already available and which ones have to be developed through training, hiring staff or getting external help?
  8. What financial resources are needed in this phase?

### Resources in the Operational Phase (after rolling out sustainable sourcing)

9. What are the main activities that, also after the roll-out phase, will call for (additional) resources? For example:
  - a. Auditing and certification costs;
  - b. Price premiums for certified inputs;
  - c. Continued assistance of farmers;
  - d. Implementation of training and engagement programmes;
  - e. Systems to monitor and manage process, to follow up issues that arise and give visibility to your supply chain.
10. What does this mean in terms of both human and financial resources in the longer-term?
11. How can these resources be justified in terms of the expected benefits (see above)?

### Convincing Top Management

In some companies, there may be fears about the human and financial resources needed for implementing sustainable sourcing. Experiences in a number of firms show that in reality much can be achieved without asking for substantial additional resources. Although a detailed business case is often difficult to present, the following can be useful to convince top management:

- 1- Clearly distinguish between one-time start-up costs (investments) and longer-term operational costs. Show how implementing sustainable sourcing can be combined with improving quality and logistics, increasing supply security and, in many cases, reducing overall costs. **Error! Reference source not found.**To help you with this task, a potential cost curve has been sketched in Diagram 12. You may specify this curve more succinctly for your own company.

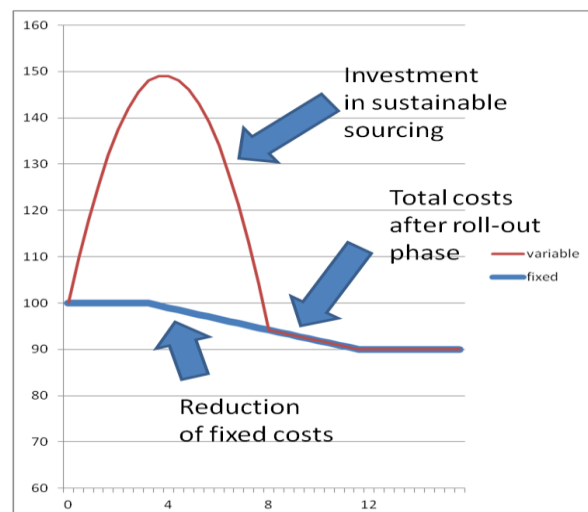


Diagram 1: Potential Cost Curve

- 2- Point to the success of other companies, who have achieved sustainable sourcing without spending unreasonable amounts of money. Cite specific examples.

## 7. Communicating the Company's Sustainable Sourcing Efforts

How do you communicate your sustainable sourcing efforts to employees and other internal stakeholders?



A good internal communications strategy must go hand in hand with the sustainable sourcing strategy. The importance of internal communication should not be underestimated in comparison with external communications – which of course is equally important (see below).

To be successful with your internal communications strategy, you may use a number of tools. Examples of these might be:

- Awareness-raising sessions such as site events, or sustainable sourcing specific events. This helps to engage managers and other staff in your process;
- Including details about your sustainable sourcing activities in your intranet and internal websites. This helps to cross fertilise information within the firm and gives other managers direct access to information and success stories about your initiatives;
- Quarterly business reviews/news bulletins/newsletters. These can be exploited to further disseminate information about your sustainable sourcing initiatives;
- Tailor-made workshops and/or training, awareness building sessions, to get managers thinking of solutions to your sustainable sourcing dilemmas.

To outreach a sustainable sourcing strategy internally, however, it is advisable to leverage existing communication channels and plug into existing systems and tools, rather than creating new ones. Just be sure that the quality and clarity of your communications is of a high standard, otherwise, you stand to lose traction.

Identifying allies (“sustainability champions”) and “ambassadors” in procurement and other relevant functional units is a highly-effective mechanism for promoting your business case internally. Those responsible for implementing the strategy should thus strategically identify who needs to be convinced internally in order to get a project through the organisational hierarchy and to get it supported on a continuous basis. In companies where such a network is operating, these key “change agents” are kept involved permanently and on an on-going basis.

How do you communicate your sustainable sourcing efforts to consumers and other external stakeholders?

To get maximum traction on your investment in terms of time, energy resources and achievements, a company's efforts to 'go sustainable' are generally communicated to a wide audience from consumers, to NGOs, governments and the media. How you decide to communicate efforts and achievements relating to sustainable sourcing depends on your firm's philosophy and tradition.

**Questions to ask include<sup>5</sup>:**

**1. Does your company regard 'sustainable sourcing' as a competitive issue?**

Some companies have good reasons not to consider 'sustainability' in general or 'sustainable sourcing' as a competitive issue. Others regard 'sustainability' as an issue to differentiate themselves in the market and to become more attractive for certain consumer groups.

**2. Will your firm use its sustainable sourcing strategy as a main item in its communication to consumers and other stakeholders?**

The message your company wants to convey to different stakeholder groups, including consumers, is, among other things, dependent on whether 'sustainability' is regarded as a competitive issue or not.

**3. How do you mobilise your company's great story tellers; the marketing people?**

One effective option is to bring your marketing people up the supply chain for a field visit. When they visit farms, farmers and farming communities, they may be in a position to tell great stories about the company and the brand in relation to sustainable sourcing.

**4. Does it make sense to communicate about targets and plans or only about concrete results?**

The answer to this question depends on the firm culture. Some companies like to communicate their efforts ("we will source 90% of our agricultural raw materials sustainably within five or 10 years"). Others prefer to produce outcomes first. External communication of targets may help create expectations on the part of consumers and other stakeholders. It may also be used as a mean to put pressure on the management to reach such targets.

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<sup>5</sup> Communication is not the main topic in this guide. In this version, we contend with a limited number of questions only. They may be elaborated further in future versions.



5. **What role will on-product labelling play in communication to consumers?**

As with the other questions, there is no single recipe here. Some companies prefer to focus as much as possible on their own brand, which, among other things, stands for sustainability. Other companies use on-product labelling (together with their own brands) with third-party labels, such as [Rainforest Alliance](#) (especially for tea, coffee, cocoa), [UTZ Certified](#) (mainly for coffee and cocoa) or different [Fairtrade](#) and organic labels. On-product labelling is generally not used for minority ingredients in the final product (such as [RSPO](#) certified palm oil or [RTRS](#) certified soy).



## GLOSSARY

agricultural raw materials	In this report: all raw materials (wheat, soy, vegetables, etc.) or processed materials (vegetable oil, tomato paste, etc.) used to manufacture consumer products. Not included: packaging materials, energy for manufacturing and transport, etc.
audit	In this context: an independent check to verify whether the supplier or farmer has complied with procedures as agreed in supply contracts and/or defined in the sustainability standard. See also: certification.
best practice	A best practice is a method or technique that has consistently shown results superior to those achieved with other means, and that is used as a benchmark. Here: the method or technique that delivers the highest scores on a pre-defined set of sustainability criteria.
certification (of sustainable agriculture)	Certification is the established and recognised verification procedure that results in a certificate on the sustainability of agriculture in relation to a set of predetermined criteria (the standard), based on an independent (third-party) assessment. Verification takes place through an audit, which can be external or internal. An external audit is carried out by an independent third party. It may be preceded by an internal audit by the organisation itself (first party) in order to ensure that compliance with the requirements set can be successfully verified during the external audit.
chain of custody (CoC) certification	Chain of Custody certification is the mechanism for tracking certified inputs from the field to the final product that ensures that the input contained in the product can be traced back to the field.
commodity	Here: an agricultural input that is interchangeable with other inputs of the same type. Palm oil, soy and sugar are typical commodities. Other inputs, with more local variation in quality and composition, have less commodity character. Commodities can typically be traded on anonymous markets.
crop	All primary outputs from agriculture. Sugarcane is a crop. Sugar is not.
direct sourcing	Directly sourcing an input (such as milk or tomatoes) from a farmer or a farmer organisation.
external standard	A standard defined by an organisation outside the company and independent from the company.
external verification	Verification of compliance to a standard by an external organisation.
farmer	The primary producer of a crop. May refer to a farmer organisation as well, such as a cooperative.
farming system	The interlinked system of producing different agricultural outputs, including those inputs that the food company is not sourcing.
GHG emissions	Greenhouse Gas Emissions (including CO <sub>2</sub> ), often calculated as CO <sub>2</sub> equivalents.

green certificates	A certificate that guarantees that a certain quantity of an output X has been produced in compliance with a certain sustainability standard. Certificates are being traded separately from the outputs themselves.
iconic ingredients	Ingredients that have a high value for a company or a brand, independent from the quantity used in the company. For example: cocoa for certain ice cream brands.
impact assessment	In this context: measuring the real sustainability impact of applying a sustainability standard.
internal organisation	The way the company organises its responsibility, tasks and work processes as opposed to the external organisation of the supply chain.
internal standard	A set of (sustainability) criteria and associated indicators defined by the company itself, as opposed to an external standard.
labelling	Here: a label attached to a consumer product with information on the sustainability of the inputs used. If external standards and external certification systems are in use, the label may refer to the external standard (e.g. 'organic') or the external certification organisation (e.g. 'Rainforest Alliance').
mindset	In this context: the collection of beliefs and attitudes that either promote or block (the implementation of) a sustainable sourcing strategy in a company.
monitoring	Continuously collecting and evaluating data on the implementation of decisions made. In this context: data that shows to what extent farmers, suppliers and parts of the own organisation are working in line with the sustainability goals set.
multi-stakeholder	In this context used for 'multi-stakeholder initiatives', initiatives that are governed by different stakeholder groups, including private sector companies and their associations, civil society organisations (such as environmental and social NGOs) and possibly farmer organisations, government organisations and knowledge providers as well.
NGOs	Non-Governmental Organisations. In this context especially organisations that represent environmental interests and social interests.
partnership	Generally used to indicate the cooperation between different types of players: public-private partnerships, partnerships between the private sector and NGOs.
pre-competitive	Pre-competitive cooperation: cooperation between private sector companies, for example to define shared best practices, that are neither subject to competition nor violating anti-trust rules.
roll-out	Implementing a company decision on a larger scale. For example: rolling-out a sustainability standard for all soy used in the company. Rolling-out is the phase after experimental try-out and small-scale projects.

roundtable	Many multi-stakeholder standard-setting initiatives and the associated certification schemes have been set up as 'roundtables'. In this context a 'roundtable' means a 'multi-stakeholder sustainability initiative'.
segregated supply chain	A supply chain, in which the certified material is kept physically separated from non-certified material.
self-assessment	A procedure by which farmers or suppliers assess their own efforts and/or results on the basis of a pre-defined scheme or with a pre-defined calculation method. The results are generally shared with the sourcing company. Self-assessment may be a step towards more demanding forms of measuring compliance.
smart zone	The 'zone' in which increasing the company's level of social and environmental performance is also adding to the company's economic performance.
social compliance	Compliance to social standards, the most relevant being related to labour conditions, health and safety, child labour, freedom of association, etc. The central body of social standards is given by the ILO standards.
sourcing	In general, 'sourcing' refers to procurement practices aimed at finding, evaluating and engaging suppliers of goods and services. In this report it refers to finding, evaluating, engaging suppliers of agricultural raw materials. Suppliers may be farmers/farmer organisations (direct sourcing) or suppliers, who source from farmers or other suppliers (different modes of indirect sourcing).
sourcing model	In this report: the different modes of either direct sourcing, sourcing from suppliers or even on anonymous commodity markets, involving different types of transactions, different modes of cooperation, etc.
stakeholder	Generally it means a group or organisation that affects or can be affected by a company's actions. In this sense, all players in the supply chain (from farmer to consumer) are stakeholders and all players that influence or are influenced by the supply chain are stakeholders as well. Especially important are stakeholders who represent social and environmental interests of those affected by the supply chain.
standard	In general: a standard is a document. It is a set of rules that control how people develop and manage materials, products, services, technologies, processes, and systems. A standard consists of principles and criteria as well as indicators used to measure compliance to these criteria. In this report: sustainability standard. A standard may be company-internal or owned by an external organisation. See also: certification.

standard organisation	The organisation that owns the standard and contains the governance structure to define and revise the principles, criteria and indicators. The standard organisation may be involved in certification but not necessarily so.
supplier	In this guide: the organisation that delivers the agricultural input to the sourcing company. This guide does not refer to farmers as suppliers. Suppliers may source from farmers or from other suppliers.
supplier code	A supplier code contains standard conditions to be fulfilled by any supplier that wishes to deliver goods (in this guide: agricultural raw materials) to the company. A supplier code may contain standard criteria for sustainability issues. As a rule, the code contains sanctions for suppliers that do not manage to comply.
supply chain	The chain from field to manufacturing company and retailer.
supply security	The certainty that planned supplies will be delivered in time, in the quantity and quality required and at costs foreseen.
sustainable agricultural raw materials	All agricultural raw materials that originate from sustainable agriculture.
sustainability	Whatever definition is chosen, sustainability includes the long-term viability of an activity and requires a reconciliation of economic, social and ecological aspects. In this guide, we focus on ecological and social sustainability in the context of profitable business.
sustainability issue	In this guide: a public issue connected to the alleged non-sustainability of a certain input (such as child labour for cocoa, rainforest destruction for palm oil or human rights at tea plantations) that creates a reputation risk or may even threaten future supply security.
value driver	Entity that increases the value of a product or service by improving the perception of the item and essentially providing a competitive advantage. Value drivers can come in many forms such as cutting-edge technology, brand recognition, or satisfied customers.
verification	See certification.

