



# Working with Suppliers for Sustainable Food Supply Chains

Even companies making steady progress cannot go much further without collaborating across the value chain.

**By Jenny Davis-Peccoud and Sasha Duchnowski**

Jenny Davis-Peccoud is the global practice leader of Bain & Company's Sustainability & Corporate Responsibility practice. She is based in Amsterdam. Sasha Duchnowski is a principal in the Industrial Goods & Services practice. He is based in Chicago.

The authors appreciate the contributions to this work from Kaitlyn Brown and Clare Tovey.

Sustainability is proving to be much harder than companies anticipated. For decades, consumers, investors, government bodies and other stakeholders have voiced growing concerns about energy and waste, water and deforestation and a host of social issues in food production and distribution—everything from child labor to farm practices. Many companies throughout the food value chain have responded to the call. Seven of the 10 largest global consumer goods companies have set carbon emissions reduction goals that include indirect supply chain emissions, and 8 have ambitious sustainability targets that require engaging significantly with upstream suppliers.

However, many of these companies now face a barrier. Retailers and consumer goods companies may have adapted their own production and logistics to lower resource requirements, for example, and they want to do more. Yet they have discovered that they cannot reach higher sustainability objectives without deep collaboration with their agricultural suppliers, who have often set less aggressive goals (see Figure 1). The key reason for

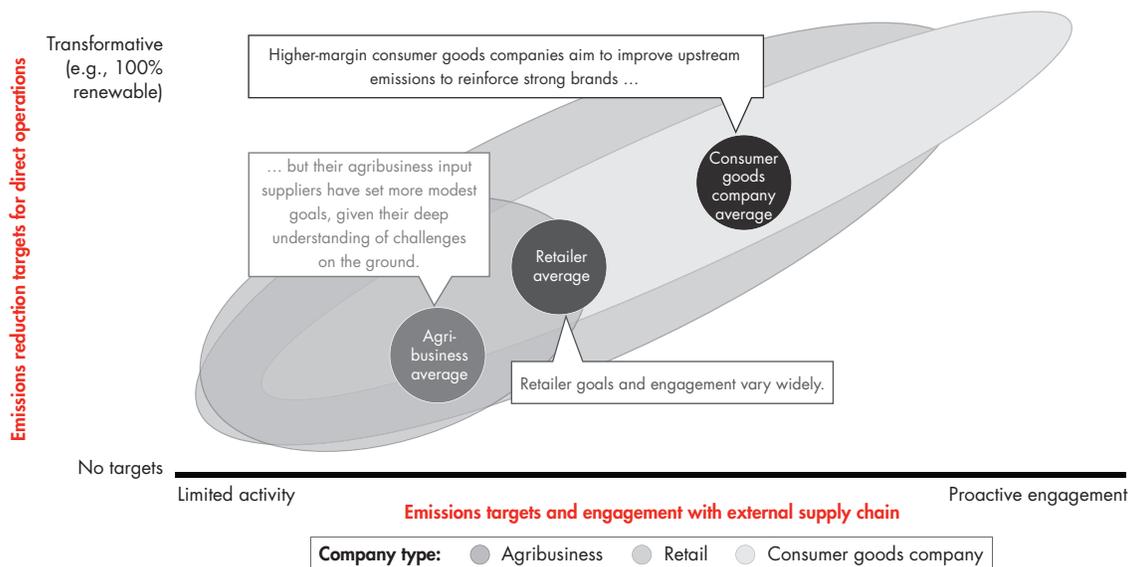
that: Suppliers fully understand the on-the-ground challenges. They are much closer to where systemwide operating practice changes must actually happen.

As a result, consumer goods companies and retailers that have worked solely within their own four walls, with only their immediate suppliers (or those that have just flatly asked suppliers to assure them of sustainable products and practices), now realize that they need to get deeper into the details of how those products are produced (see Figure 2).

Indeed, true progress is hard to achieve. Only two of the seven consumer goods companies with indirect supply chain emissions goals reported reductions from purchased goods and services in 2016, with an average reduction of just 1%, according to the global environmental platform CDP (excluding methodology changes). Furthermore, even as they tackle climate-related concerns, companies are taking on multiple issues; for example, even those with reputations for leading progress on sustainability still struggle with child and forced labor issues.

Figure 1

## Consumer goods companies and retailers set more aggressive goals to reduce emissions than agribusiness suppliers

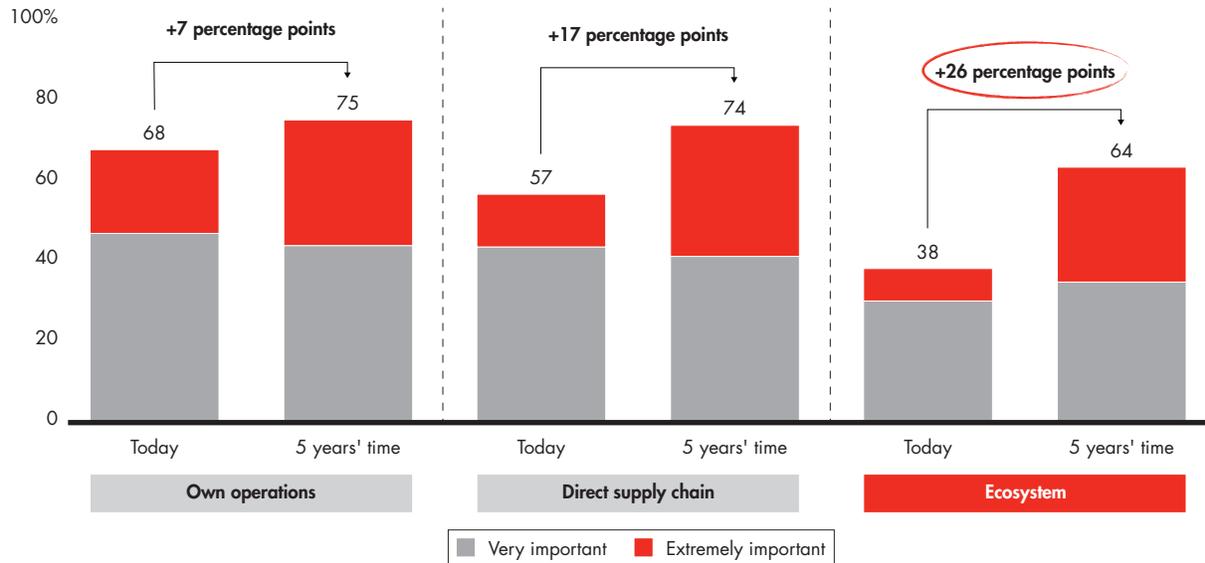


Notes: Graph includes top 10 companies in each category by 2016 revenue; companies looked to reduce emissions taking three approaches: direct greenhouse gas emissions (inside company's business borders), external purchases of energy (mainly electricity from the grid) and other indirect greenhouse gas emissions  
Source: Bain & Company

Figure 2

**Companies will increasingly focus on the broader ecosystem when identifying solutions**

Percentage of respondents regarding each focus area for identifying solutions to their biggest sustainability challenges as very/extremely important



Source: Bain 2018 Sustainability survey (n=297)

The situation is highly complex, raising tough economic and regulatory concerns with no easy answers. A single example: There is no “most sustainable” beef, as interventions for a given benefit may worsen other issues. Grazing and grass feeding may seem the more natural and sustainable way to feed cattle. But when cows digest grass they let out more methane, a harmful greenhouse gas many times worse than carbon dioxide, than when they eat a grain-based feed in a pen. Getting to the heart of such issues requires going beyond macro or directional choices made in a boardroom and zeroing in on numerous micro-decisions and trade-offs made on farms and throughout the value chain.

Stakeholder expectations, the burden of proof and the barriers within large global food systems all are steadily rising. As they do, the path to sustainability can become more frustrating and feel unattainable. Yet, despite these obstacles, there is a promising way forward. Some companies are managing to make real strides in improving upstream agricultural sustainability. These companies’ leaders have learned that they cannot simply

push the sustainability imperative onto their suppliers and raw material producers. They take a wider view, engaging a broad set of stakeholders in their efforts and embracing the complexity and collaboration required.

In our experience and analysis, making a meaningful difference upstream in the supply chain typically takes a three-step approach. While our research focused on consumer goods and retail companies with upstream agricultural supply chains, the lessons apply across industries—in everything from apparel to mining to forestry. We’ll look at these steps one by one.

**Step 1: Map out the specific issues that need to be addressed, and by whom**

Companies may find themselves struggling to take the first step in this long journey, and worrying about the prospects of bearing additional costs for little clear progress. While they generally understand the magnitude of the issues, many don’t actually understand those issues with enough nuance or enough clarity on what

it will actually take to achieve their goals. That is why those furthest ahead on the sustainability journey invest to map and quantify the issues throughout the value chain. For example, a mapping and quantifying analysis would help retailers understand that while pole-and-line fishing addresses some sustainability concerns in tuna, it cannot be scaled because of the significant human and capital resources required and high switching costs. Alternative solutions should therefore still be investigated.

Companies may *think* they are moving in the right direction by responding to sustainability demands raised by NGOs or other groups, but without examining the impact and feasibility of those demands on the entire system, they risk spinning their wheels on actions that are ineffective or have unintended consequences. So, mapping and quantifying requires analyzing a range of issues and decisions, determining their impact and magnitude and evaluating how those issues and decisions relate to one another.

Before taking any actions, companies must develop a deep understanding of the industry structure, economics and profit pools, as well as the incentives of all value chain participants, including crucial stakeholders such as government regulators and influential NGOs. Through this process, new insights will emerge that allow the companies to make smarter moves. They are armed to identify the leverage points, have the necessary conversations with suppliers and undertake only the most effective interventions—charting out the next steps needed to scale those interventions to the system level.

In the animal protein industry, the mapping and quantifying process revealed that feed accounts for 60% to 80% of the emissions in pork and poultry. Feed inputs like corn and rice are likely to have a higher carbon footprint than other options such as soybeans.

This basic knowledge enables a producer to make different choices about feed composition to improve sustainability. It led Cargill Meats Europe to focus on improving the sustainability of feed in its supply chain, working with and building upon tools such as FeedPrint, which calculates the carbon footprint of feed blends, to help incorporate sustainability trade-offs into decision making.

While initiatives that emerge from a supply chain analysis are often a sustainability win, the path to success is usually not quick and easy. The process of mapping the value chain of each commodity can take significant time and resources, but ultimately, this is the kind of long-term investment that companies make to ensure that sustainability initiatives pay off.

## Step 2: Develop a portfolio of actions at the system level

Mapping and analyzing the supply chain complexities helps clarify the nature and magnitude of the actions required to reach a sustainability goal, but doing so also generally shows that incremental gains and any individual action will not be sufficient. Instead, the most successful companies create a portfolio of self-reinforcing actions that motivate diverse stakeholders to change the system. They acknowledge that transforming their upstream value chain requires them to put their own house in order to build the credibility needed to ask for industry changes.

Companies do not need to wait until they have a 100% sustainable supply chain to begin offering sustainable products. Introducing a sustainable SKU can help a company determine the product claims that resonate and the price points that work. It also can create incentives for current suppliers or enable a company to form relationships with, and learn from, new suppliers—all while developing a portfolio of actions for a broader product range. In addition, there are financial benefits. A single sustainable SKU could provide proof points to persuade the business to do more. Indeed, ethical and sustainable food segments are growing much faster than the overall market. In the UK, ethical food and beverage sales grew by 9.7% in 2015 compared with 2.1% for the rest of the market. Unilever's "Sustainable Living" brands are growing 50% faster than the rest of the company's portfolio.

The experience of agribusiness company Olam in spices illustrates the multiple benefits achieved by working directly with upstream suppliers on targeted programs. The company acquired a spice processing facility in Cochin,

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India, and received a \$120 million loan in August 2011 to enhance employee safety, quality control, food safety and capacity. A large part of its efforts focused not only on the 400 workers employed in the processing facility, but also on the 900 small-scale farmers supplying the factory. Olam deployed a 52-member team to provide farmer training in labor practices, land use, pesticide and fertilizer requirements, crop-drying techniques and other best practices. Two and a half years after the acquisition, output rose dramatically while farmers cut costs by 15%, reduced pesticide use by 30% and increased yields by 10%.

It is also critical to collaborate with other participants in the value chain, including competitors, processors, producers and NGOs. Joining forces goes a long way toward creating a level playing field. In addition, working with a variety of stakeholders can enable new innovative solutions to be developed. Precompetitive collaborations can create more power to influence suppliers and eliminate the prisoner's dilemma and first-mover disadvantage. The nature and scale of the most effective approach depends on the outcome of the mapping efforts.

Trustea, the India sustainable tea program, was formed to foster collaboration among India's largest tea producers and retail brands, including Hindustan Unilever and Tata Global Beverages, which have a combined market share of 57%. It launched a certification program to improve the social and economic conditions of the tea industry while protecting the environment. The initiative has succeeded for companies like Unilever, a founding member, which now acquires 75% of its tea from sustainable sources, up from 36% in 2013.

In many situations, a portfolio of actions will be more effective when reinforced with philanthropy and advocacy. Working with NGOs or government regulators is a way to align incentives to address parts of the system where it is harder to make change happen and create effective partners that will help push for and implement change. The Walmart Foundation has awarded grants related to supply chain sustainability. Among the areas it is funding: the development of a comprehensive set of data, and analytics and innovative tools

for assessing the nature and prevalence of forced labor and trafficking in the Thai seafood sector. A grant to Issara Institute is helping elevate workers' voices through education and access to hotlines. These types of innovation benefit all and address a part of the system where it is hard to make change happen.

### Step 3: Build on successes—and repeat

The first wave of actions always looks hard, but companies are learning that in sustainability efforts, success breeds success. The best companies rely on quick wins to create momentum for further change, establishing systems for celebrating those achievements and rolling out—and building on—best practices. They transfer what they learn improving one supply chain to other supply chains, other markets, other business units. For example, Olam found that the tools and frameworks it developed to track, monitor and communicate sustainability attributes of products are applicable across its diversified portfolio of commodities.

The German-based retailer Metro started Star Farm consultancy to help Chinese producers fulfill international quality standards and implement traceability in the food supply chain. The success of this initiative solidified Metro's reputation for food safety in China. Based on that, the wholesaler has adapted the program for Pakistan, where it has likewise met with great success.

Once companies get started, they generally see a positive shift in the relationship with their customers and consumers, who value purchasing from companies they trust as positive global citizens. The momentum also helps to boost employee engagement and facilitate internal buy-in from key stakeholders.

It isn't easy to make major gains in the pursuit of supply chain sustainability. If companies have learned anything from their efforts, it is that it takes a systematic approach and host of engaged participants—a village—all aligned and working together toward the same end goal of positive system changes. No company can get there alone. 

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## Bain's Sustainability & Corporate Responsibility practice and Supply Chain Management practice

### Americas

**Aaron Cheris** in San Francisco ([aaron.cheris@bain.com](mailto:aaron.cheris@bain.com))

**David Cooper** in New York ([david.cooper@bain.com](mailto:david.cooper@bain.com))

**Sasha Duchnowski** in Chicago ([sasha.duchnowski@bain.com](mailto:sasha.duchnowski@bain.com))

**Sam Israelit** in San Francisco ([sam.israelit@bain.com](mailto:sam.israelit@bain.com))

**Dalton Maine** in Chicago ([dalton.maine@bain.com](mailto:dalton.maine@bain.com))

**Fernando Martins** in Chicago ([fernando.martins@bain.com](mailto:fernando.martins@bain.com))

**Vikki Tam** in New York ([vikki.tam@bain.com](mailto:vikki.tam@bain.com))

**Joe Terino** in Boston ([joe.terino@bain.com](mailto:joe.terino@bain.com))

### Asia-Pacific

**Gerry Mattios** in Singapore ([gerry.mattios@bain.com](mailto:gerry.mattios@bain.com))

**François van Raemdonck** in Kuala Lumpur ([francois.vanraemdonck@bain.com](mailto:francois.vanraemdonck@bain.com))

**Satish Shankar** in Singapore ([satish.shankar@bain.com](mailto:satish.shankar@bain.com))

### Europe, Middle East and Africa

**Miltiadis Athanassiou** in Zurich ([miltiadis.athanassiou@bain.com](mailto:miltiadis.athanassiou@bain.com))

**Jenny Davis-Peccoud** in Amsterdam ([jenny.davis-peccoud@bain.com](mailto:jenny.davis-peccoud@bain.com))

**Christopher Mitchell** in Johannesburg ([christopher.mitchell@bain.com](mailto:christopher.mitchell@bain.com))

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