White Paper

# Sustainability Strategies in the Food and Drink Industry

Leatherhead
Food Research

# Sustainability Strategies in the Food and Drink Industry

Sustainability continues to assume ever-increasing importance as a strategic priority for companies within the global food and drink industry. This is due to factors such as the continued growth of the global population, as well as pressure on the world's food and water supplies and environmental considerations such as climate change. Pressure from consumers and governments for companies to act in a more responsible manner remains as high as ever, as a result of which social and environmental issues are being addressed on a wider scale by both food manufacturers and retailers alike.

In this White Paper, Emma Gubisch, Strategic Insight Manager, discusses the current sustainability strategies of food and drink companies and explores the future for sustainability in the industry.

## What does sustainability mean?

The term 'sustainability' rose to prominence following the 1987 publication of the United Nations-sponsored Brundtland Commission report: Our Common Future. In essence, the report defined sustainability as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'. This definition has been instrumental in developing a global view with respect to our planet's future.

Following the Brundtland Commission's call for an international meeting to map out concrete initiatives and goals, Agenda 21 was developed at the UN Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992 – Agenda 21 is a non-binding, voluntarily implemented action plan of the UN with regard to sustainable development.

At the 2005 World Summit on Social Development it was first noted that sustainability requires the reconciliation of environmental, social equity and economic demands – these have been coined the three pillars of sustainability or the three E's (as shown in the diagram below).
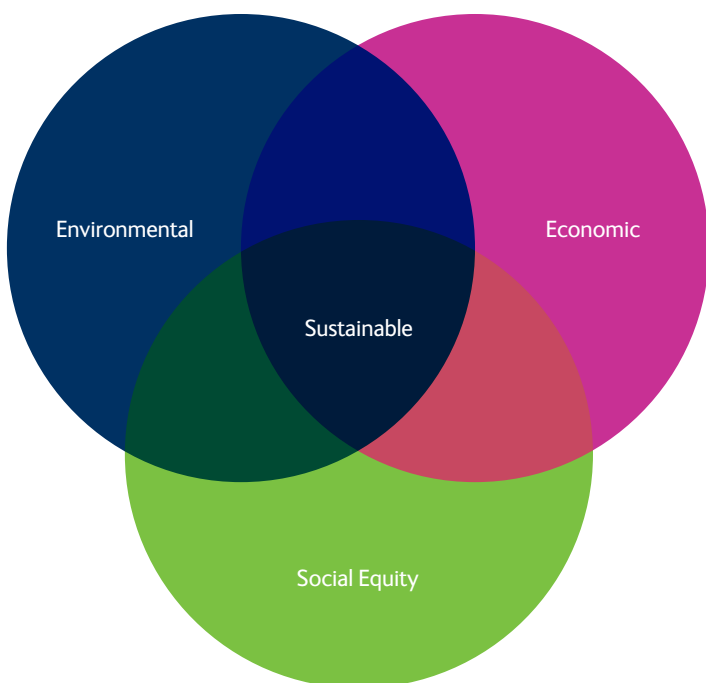


Figure 1: The Three Pillars of Sustainability

## Sustainability in the food and drink industry

In the last five to ten years, there has been a dramatic shift in how food and drink companies are addressing sustainability issues. It has moved from being an initiative which sits to one side of the business in Corporate Social Responsibility (CSR) or philanthropic strategies to being a main stream business consideration.

The level of sophistication in sustainability strategies remains varied. At one end of the spectrum there are companies who are proactively leading the way, recognising the reputational wins from being at the forefront in this area. At the other end there are companies who are treating sustainability as something they ought to do rather than something fundamental to their business, responding reactively to other companies' requirements rather than setting the agenda. It is clear, however, from the range of long term goals and targets companies are setting themselves, that there is an appreciation of the importance of sustainability and a commitment to making positive changes in this area.

The three pillars of sustainability described above are a useful reference point when discussing sustainability in the food and drink industry because it forms a framework to describe many companies' actions in this arena.

## Economic: acting sustainably makes business sense

It is clear many companies are beginning to realise that sustainability makes business sense, both from a financial point of view but also from the point of view of the longevity of their business. They are tackling sustainability issues because they want their business to exist far into the future and they recognise that as competition for scarce resources become more fervent, they need to plan for their survival. This is about the sustainability of each and every individual organisation rather than companies being altruistic or 'doing good for the sake of doing good'. These companies have shareholders to report to and they are realising there is a clear business case for behaving sustainably – by saving resources they are also making financial savings for their company.

## Environmental: initiatives with a strong environmental leaning

When looking across the sustainability strategies of large food and drink companies, a great number of activities are focussed around environmental initiatives. This is the logical place for companies to start to tackle sustainability issues. Companies are often already doing something in this area, it makes business sense (any efficiencies benefit the environment and translate into cost savings) and it is something which is easy to quantify (they can set targets around environmental initiatives, measure them and report on progress). The key environmental initiatives that companies are involved in broadly fall into the following categories:

- Reduction of greenhouse gas emissions and management of carbon footprint
- Switching to the use of renewable energy
- Waste reduction
- Reformulation and recycling of packaging
- Reduction of water usage in manufacturing

Specific environmental initiatives adopted by food manufacturers have been wide-ranging. In order to reduce their carbon footprint, companies have been reducing use of packaging material, as well as optimising their logistical operations. Greater use of alternative and/or renewable energy is also being sought throughout the industry – some of the more popular examples have included solar energy (which have proved especially popular in countries wide warm climates) and biomass, which often has the added advantage of reducing the amount of waste sent to landfill.

## Social equity: the growing focus on the supply chain

This social equity pillar has been slower to develop than the other two sustainability pillars. Previously, social equity rather narrowly saw companies focussing on CSR in local communities. Now companies are looking at supply chains, work ethics and the growing pressure to deliver healthy and nutritious food.

Companies are becoming conscious of the need to understand the operations of their entire supply chain in order to mitigate any risks before they occur and to give them evidence for the good news stories about their products. The overall trend is for companies to look further up the value chain.

Commitments to sourcing foodstuffs sustainably show industry has taken a reactive approach to date, focusing on foodstuffs which have received high profile negative publicity: cocoa, tea, palm oil, fish and seafood. Many companies have entered into partnerships with organisations such as the Roundtable on Sustainable Palm Oil (RSPO), the Rainforest Alliance, UTZ Cocoa, the Marine Stewardship Council (MSC) and the various Fairtrade accreditation bodies. As companies look further back up their supply chains, companies are expected to become more proactive as far as sustainable sourcing of raw materials and the trend is for companies to look more broadly at the sustainability of all their commodities, ingredients or products.

The case for supply chain ethics is becoming clearer too. Trade is changing. Food companies can no longer assume they can pay the right price and get the commodity they want. With fears around the supply of key commodities like cocoa, not only is the reality beginning to sink in that there might not be an endless supply of commodities, but the growth of food companies in the southern hemisphere means there are a greater number of companies demanding scarcer commodities. Small scale producers are finding they now have options and companies could find themselves being cut out of deals. Companies are beginning to see real benefits in nurturing and protecting their supply chains.

## The future: the need for precompetitive cooperation to promote sustainability

In spite of the developments in sustainability and companies' commitments to behaving sustainably, there are still challenges ahead. The food and drink industry is a long way from the scenario where they are addressing sustainability in a 'pre-competitive' environment – such an environment would require companies to agree not to compete on a sustainability platform but to work together to achieve sustainability goals. Arguably, this is vital in an industry such as food and drink which has a complicated supply chain and which needs to communicate across the supply chain to develop key sustainability metrics and deliver real change in this arena.

## About Leatherhead

Leatherhead Food Research delivers integrated scientific expertise and international regulatory advice to the global food, drink and related industries. We support companies, large and small, with independent, professional and customer-focused services.