

**Retailers and sustainability**

# **The drive for sustainable food production, supply and consumption**

by Chris Anstey



**dutch sustainable  
trade initiative**

# Foreword

President Obama recently said that there are only two kinds of car companies: those that sell hybrid cars and those that will sell hybrid cars in the near future. The same is true for sustainability in supply chains. There are companies that source and sell more sustainable products and there are those that will do so in the near future. With a world soon populated by nine billion people and over two billion new middle-class citizens, traditional sourcing and selling will simply be a no. You are either on the pathway to sustainable development or you are out of business.

The challenge of sustainability is reshaping the relationship between business and society. Industry needs to better manage natural resources and significantly lower its global ecological footprint. And companies need to engage much better with suppliers and workers in the emerging and developing economies.

The mission of the Dutch Sustainable Trade Initiative (IDH) is to upscale and accelerate the mainstreaming of sustainability in international commodity chains. IDH joins the forces of business, non-governmental organisations, labour unions and governments. We bring diverse stakeholders together in focused and result-oriented sectoral coalitions that implement ambitious improvement programmes. These programmes tackle social, ecological and economical bottlenecks in the countries of origin of raw materials, while at the same time creating value for more sustainable products in developed countries.

IDH acts as a knowledge broker, capturing and sharing best practices in sustainable business. This will help frontrunners to move even faster, while supporting others to overcome thresholds. To mark its first-year anniversary, IDH is publishing a series of six booklets on current practices in sustainability in mainstream business:

- Sustainable Marketing: The positioning of sustainable products in mainstream markets, with cases of Lipton (tea), FSC (timber) and Nespresso (coffee).
- Sustainable Sourcing: Advanced strategies and cutting-edge practices in sustainable procurement, with case studies of AkzoNobel (chemicals), Mars (cocoa) and IKEA (cotton).
- Sustainable Trading: Why and how traders have become key agents for sustainability in the coffee supply chain and how this is being replicated in cocoa, with case studies of Ecom (coffee) and Olam (cocoa).
- Sustainable SMEs: Best practices in sustainable sourcing among small and medium-sized enterprises, with case studies of Wijma (timber), Fair Wear Foundation (garments), and RMP Grafmonumenten (natural stone).
- **Sustainable Retail: Why and how retailers incorporate sustainability into their business strategy, with case studies of Ahold, Asda/Wal-Mart, and Carrefour.**
- Labour Standards beyond Auditing: Best practices in going beyond auditing to achieve genuine social impact, and the business case for doing so, with a dozen cases in the garments, electronics, and sportswear industries.

We hope you enjoy reading these booklets and that they may inspire you with actionable ideas to further embed sustainability within your own organisation.

**Joost Oorthuizen, Director IDH**  
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**Director Sustainability AkzoNobel**

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Chapter 1  
Introduction

**‘The change demands a long-term approach to buying and selling that considers the needs of people and the environment, and is driven by an acceptance of accountability.’**

**‘What went wrong?’ This is a question which we began asking in late 2008 as the global economic crisis gathered its inevitable and terrible momentum. After the banking crisis, the credit crunch went on to hit the rest of the world’s economies.**

Declining consumer confidence and increasing job losses led to less demand. Exporters experienced stagnation in their order books. Economists and analysts went back to their drawing boards, and the food business started to face the many challenges of trading in a recession.

Retailers’ CEOs have responded to the recession by keeping consumer focused issues at the top of their priorities (see Table 1). They have also driven strategies based on price and private label development. The leading companies demonstrate their commitment through their strategy (see Table 2). Sustainability is about more than just risk management or cost saving, it’s viewed by the leaders as a tool for innovation.

If you are in buying, logistics or quality, this booklet will help you learn about what retailers around the world are doing in terms of sustainability. If you are interested in food policy, you will find out how customer focus is being translated into new policies and business practices.

The drive for change represents an opportunity for retailers to enhance their brand promises. They have improved their internal cost control through efficiency gains. Projects that improve recycling processes, energy usage and refrigeration are now widespread.

The change also demands a long-term approach to buying and selling that considers the needs of people and the environment, and is driven by an acceptance of accountability. This booklet describes how the retailers must work on sustainability with their consumers, suppliers and competitors.

Solutions are being found in transparency, characterised by openness in communication and marketing. Also, through collaborative action working in agreed and well structured processes to identify best practice in supply chain management.

The benefits for retailers are simpler buying, reduced failure, improved efficiency and improved customer loyalty.

This booklet recommends that policy makers need to consider their social impact and provide credible measurement of their progress.

**‘You will see that the leaders that get ahead in Wal-Mart will be the ones who demonstrate their commitment to sustainability’**

Mike Duke, Wal-Mart CEO,  
January 2009

**Box 1. Consumer Goods Forum – (formerly CIES)\* Top of Mind in Global Food Industry**

The annual survey asks 600 retail and manufacturing senior decision makers across food and consumer goods in 54 countries to rank the same twelve issues. These leaders are expected to deliver profits

for shareholders and fairness for stakeholders. For 2009, in spite of recession, sustainability retained its high priority. The top three issues for 2009 have something in common: the consumer.

Issue	Ranking 2009	Ranking 2008
<b>The economy and consumer demand</b> (e.g. energy costs, demographic change, consumer trends)	1	4
<b>Food safety</b> (e.g. standards, traceability, consumer confidence)	2	2
<b>Corporate responsibility</b> (e.g. sustainability, social standards, corporate governance)	3	1
<b>The competitive landscape</b> (e.g. consolidation, discount, new channels)	4	9
<b>Retailer-supplier relations</b> (e.g. trade costs, pricing collaboration)	5=	5
<b>The retail/brand offer</b> (e.g. price-points, assortment, format)	5=	8

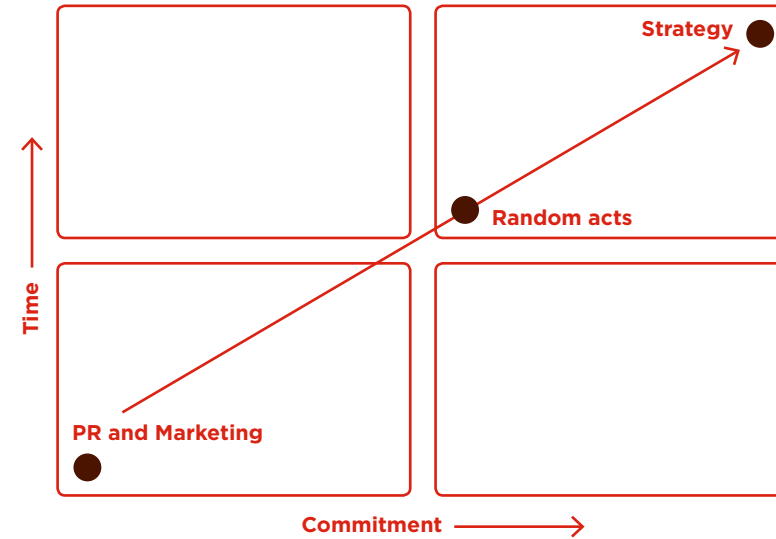
Other issues in order of priority for 2009 (2008 in brackets):

- 7th (3) Consumer health & nutrition** (e.g. product development, labelling, education);
- 8th (11) Consumer marketing** (e.g. loyalty programmes, promotions, advertising);
- 9th (7) Technology and supply chain** (e.g. in-store technology, RFID, out-of-stocks; logistics);
- 10th (6) Human resources** (e.g. staff recruitment and retention, operational performance);
- 11th (10) Internationalisation** (e.g. international expansion, global sourcing);
- 12th (12) Regulations** (e.g. store openings, pricing, labelling)

\*[www.ciesnet.org](http://www.ciesnet.org)

The actual engagement of companies in sustainability initiatives can be plotted as a combination of their commitment and the time they invest. At worst, companies spend more time and money claiming engagement than actually doing anything other than turn off some lights. At best, companies involve and inspire their consumers, suppliers and employees by making sustainability a strategic part of every business decision.

**Corporate engagement in sustainability**



Source: Greenbiz.com

## Chapter 2

### Engaging with consumers

**‘Consumers will reward retailers they like and penalise those they don’t.’**

**Retailers face the challenge of engaging with their consumers on sustainability. Connecting with the ethical consumer is easy, but how do we attract other customers who have little or no interest in sustainability? Private labelling provides the main opportunity of presenting ethical credentials, but there are risks of product failure.**

#### 2.1 The ethical consumer

Consumer choice dominates markets. They decide who sells and what is sold. Price has always been the key driver, but today’s consumers are becoming better informed and are making purchasing decisions based not only on price, but on the emotional aspects of quality such as labour standards and the environment. Partly concerned about environmental issues, they are also influenced by the trail of food safety scandals over recent years. They want to be able to trust the authenticity of their food and they view their purchasing decision as a moral choice. However, there are contradictions as well. When they buy a product from a well-known brand with a certification label for Organic or Fair Trade, who is actually the one being trusted? What about a product from the same brand, but without an extra label? Can that still be trusted?

The strong growth of the hard discounters with their small ranges based on private labelling suggests that plenty of consumers are looking for a simpler and cheaper shopping trip in the recession. Meanwhile, the premium retail brands have suffered reduced sales and loss of market share as consumers take control of their spending by reducing impulse and treat purchases. Organic sales are down and ‘local’ sales are up, showing that some ethical consumers lack commitment.

Retailers present their sustainability credentials to consumers through investment in their private label. The origin of the offer has always been quality at a discounted price. The retailer then has to compete with brand manufacturers and deal with the associated liability and supply chain accountability. For sustainability, the principle offer shows support for local production. The Co-op in Switzerland (8.7 billion euros grocery sales<sup>1</sup>) has introduced a new ‘Mountain Line’ private label range that guarantees local production and processing within the mountain region. The range is intended to strengthen the economy of the Swiss mountains and to safeguard employment. In August 2009, UK retailer Waitrose (5.1 billion euros grocery sales) announced that all of its private label dairy products will be made using British ingredients.

Retailers are also increasingly using their own name on their private label. This is nothing new in the UK market, where private label is referred to as ‘own’ label because the retailers ‘own’ name is on the product. This change can be seen in Germany, where the discounters have a 38% market share. Rewe (number 10 in the world, 43 billion euros grocery sales) has now renamed all its private brands with its own name. Edeka (number 13 in the world, 38 billion euros grocery sales) have put their logo on all their packaging. Metro’s hypermarket chain ‘Real’ have their new private label ‘Real Quality,’ including organic and premium ranges.

<sup>1</sup> All grocery sales figures are from Planet Retail, 2009. The include non-food grocery items such as detergent and personal care products.

Other retailers are now using carbon labelling to differentiate their private label. Aldi Hofer, the Austrian discounter announced in June 2009 that 100% of its private label organic range 'Zurück zum Ursprung' will have a carbon footprint on the label and the ingredients would be traceable online back to its farm.

In Japan, Seven and I, (number 8 in the world, 44 billion euros grocery sales), is expanding its joint venture farming operations to deliver an absolute promise on where their fruit and vegetables are grown. They aim to supply more than 80 supermarkets in the Kanto region.

CS

### Case study Private label development and consumer communication – Carrefour

The original global pioneer, Carrefour is the most international of retailers with 56% of its turnover outside its home market and banner sales in 2008 of 108 billion euros. The company is recognised as showing great flexibility to the particular local conditions in the thirty countries in which it operates. Carrefour is strong in many countries, in particular in France (20.8% market share 2009<sup>2</sup>), Belgium (18.4%), Spain (14.8%), Brazil (8.1%), and Italy (6.1%). In 2009, 78% of their Group turnover is in grocery.

Their sustainability policies are driven by an international agenda and based on respect for the law and key reference documents from the UN, ILO and OECD. Their leadership in policy setting on human rights is shown by their commitment to international collaboration in the Global Social Compliance Initiative (facilitated by the Consumer Goods Forum), of which they were a founding member. In 2008 they joined Social Accountability International.

They have a long-term and open relationship with the International Federation for Human Rights (FIDH) and with the Union Network International (UNI). On the environment, they have published commitments to reduce the emissions of their operations in logistics and stores.

Carrefour is one of the founding members of the new 'Retail Forum', set up by the European Retail Round Table in partnership with the European Commission.

Their CEO, Lars Olofsson, describes their approach to sustainability: 'The initiatives we have taken are very concrete and show tangible results. Internally, our teams have taken this approach to heart, viewing it as an opportunity to innovate and create value. **Now it is time to step up our communications on the subject, because as a leading retailer we must set an example.**'

Olofsson also stated that France is the first priority: 'There will be no lasting success if our base is not strong. France is at the heart of Carrefour.' Their private label range in France is the keystone of their brand promise with an extensive and sophisticated portfolio. The company has built trust with its customers due to excellent brand awareness and direct control of its food range. They've been able to integrate this into their marketing work to communicate a positive message on both local sourcing and food miles. A recent advertising slogan was 'In France, more than 80% of our food products are produced in France'. The development of their private label is central to their current commercial plan. For example, in 2009, under their 'standard' food brand 'Carrefour national brand', a 40% increase in range is underway and the end of year target will be 4,500 individual products.

Véronique Discours-Buhot is the Group Director for Sustainability and works closely with the private label teams in France: 'Here, in our home market, our supply chains are mostly very close to us. This is very helpful for all our communication. Within our private label range we have the 'Carrefour AGIR' brand which covers a complete range of sustainable development issues. It includes sub-ranges in organic ("Bio"), fair trade ("Solidaire") and environmentally friendly ("Eco Planète"). We offer these products to our customers at a good price in line with our private label promise of affordable quality. **Sustainability in production and consumption should not cost more.**'

In 1997 Carrefour launched their 'Reflets de France' private label brand to showcase locally produced foods within the context of the national culinary heritage. A key aim was to co-operate with small and medium-sized enterprises in a joint initiative. It is now one of the top 30 brands sold in France, with sales of more than 320 million euros and a range of over 300 products. One example from Brittany demonstrates the positive outcomes from effective marketing. The producers group 'Groupement de Sel de Guérande' have turned their 'La Fleur de Sel de Guérande' salt product, marketed under the 'Reflets de France' brand with the prized 'Label Rouge' certification, into the biggest selling French brand of sea salt.

Véronique says:

**'Carrefour has a very important role to play by enabling customers to change the way they consume. We believe in sustainable development for all, for today and tomorrow. We support the development of regulations by the European Commission. This will help drive change by promoting green products and solutions and making them more affordable for consumers. I also think that good regulation can help address 'green washing'<sup>3</sup>. This will help companies that are really taking action and having a positive impact on sustainability.'**

In conclusion, Véronique describes her communication challenges for the future: 'I think that driving the change towards sustainable consumption will be a very important challenge for us. **We have a key role to play in helping our customers change the way they consume, both for their health and for climate change.'**

#### Carrefour consumer communication policies for private label in summary

- Use sub-brands to create a clear message on particular sustainability issues
- Sustainable products should be genuinely affordable
- Use themed events such as 'World Environment Day' to showcase policy work in the stores and to consumers
- Share key messages with credible third parties from civil society

#### Carrefour – Top 3 Policy tips

1. International agreements, by governments and business, should be the starting point
2. Work with others to find solutions on non-competitive issues
3. Sometimes, to be innovative, you need to take a leap of faith

<sup>3</sup> the way that some companies spend more time talking about the environment than actually doing something

## 2.2 Improving consumer response

How does a product get onto a supermarket shelf? Because the buyer put it there? Because the consumer wanted it to stay there? The first is true, but because buyers are dominated by consumer choice, the second is fundamental. This is why the consumer is such a key player in the sustainability challenge. They will reward retailers they like and penalize those they don't.

To change their behaviour and drive sustainable consumption, policies are required that make sense so people can identify what's in it for them and get involved. People do want change, they are concerned. In 2008, marketing experts Nielsen undertook a global survey on packaging.<sup>4</sup> They polled over 26,000 shoppers in 47 markets. In introducing their report, they said 'Concern around packaging waste is increasing at a higher rate than any other environmental issue.' Plastic disposable shopping bags provide an example. In June 2009, the leading Canadian retailer Loblaw (13 billion euros grocery sales) announced an 84% reduction in plastic bag usage for the State of Quebec in just two months.

There's another challenge. Where does packaging belong in the chain? For example, when a tube of tomato puree is packaged in a cardboard box, the consumer must recycle that box. In the UK, only 34% of people recycle, so it's unlikely that the box will end up in the recycling bin. In 2009 the Co-operative Group removed the box and placed the tubes in a shelf-ready box. This increased the amount of packaging used in store but reduced overall cardboard use by 35%. It also increased the recycling rate of the cardboard, as in-store recycling rates are over 90%. Also in the UK, ASDA are about to trial an in-store dispenser of liquid detergents. Bring your empty container to the store, fill it up, reduce packaging costs and deliver a great recycling message.

Influencing consumers has also been approached through innovative community engagement. In Colombia, Carrefour works with 47 schools in disadvantaged areas helping with facilities, supplies and educational programmes. In 2009, Loblaw announced that children and their parents will be offered science-based cooking classes in their Ontario stores. They will learn basic scientific concepts through food preparation and mixing of ingredients.

### Box 2. The seven principles of behaviour - Identified by the New Economics Foundation.

1. Other people's behaviour matters.
2. Habits are important.
3. People are motivated to do the right thing.
4. People's self expectations influence how they behave.
5. People are risk averse.
6. People are bad at computation.
7. People need to feel involved and effective to make a change.

[www.neweconomics.org.uk](http://www.neweconomics.org.uk)

## 2.3 The cost of failure

Supply chain failures can result in high direct costs for retailers. The indirect costs in lost consumer confidence can be even more serious. Such costs can never be accurately accounted for, especially when the failure is associated with an ingredient that affects an industry rather than a product. Recalls and withdrawals, in the past associated with safety or legality issues, can now also result from sustainability issues.

In 2008, the fashion company Gap were alerted to a problem with an unauthorised sub-contractor in their supply chain in India. A television programme had proved that children were working in embroidery of Gap garments. The president of Gap North America, Marka Hansen, said, 'As soon as we were alerted to this situation, we stopped the work order and prevented the product from being sold in stores.'

Just consider the challenge for Gap. Let down by an unauthorised sub-contractor, they find themselves selected for global disgrace from the thousands of companies involved in buying products from India. Separately, Wal-Mart told their suppliers in September 2008 to stop buying cotton from Uzbekistan to try to put an end to forced child labour in cotton harvesting.

What is the relevance to the food industry of these stories? The 'Agricultural and Processed Food Products Export Development Authority (of India)' measured the value of total Indian food exports in the 12 months up to March 2008 as 5.6 billion euros. Children are certainly involved in the production of these food ingredients sold in markets around the world. There are clearly documented problems of child labour in coffee and cocoa supply chains. A future expensive failure for the food industry appears inevitable.

An extra challenge is that accountability is unclear. Companies and their suppliers struggle to apply legislation in countries where international labour standards are not effectively enforced. To make things even tougher, there are many hidden agents and sub-contractors within the supply chain. Gap was ready to deal with the issue. Their leading position on labour standards has been the result of many years of hard work. Others have no such position from which to communicate their policies in the event of a problem.

The consumers will make their choice and decide which retailers they trust. Their decision may lack objectivity, but the outcomes for the business can be costly.

### Box 3. Estimates from NGOs say there are as many as 80 million children working in India.

'Often, you can't see it because it's hidden, whether in people's homes or crammed into little rooms. They will be faced with very cramped conditions, maybe 10-15 children to a room, work for long hours, and doing very detailed work, and often will be hit, will be yelled at, their food may be withdrawn if they haven't done something well enough. The children don't grow as they ought. Their eyes suffer. Their hands suffer. The conditions are terrible.'

Shireen Vakil Miller of Save the Children

<sup>4</sup> [http://blog.nielsen.com/nielsenwire/wp-content/uploads/2008/07/press\\_release17.pdf](http://blog.nielsen.com/nielsenwire/wp-content/uploads/2008/07/press_release17.pdf)

## Chapter 3

### Engaging with suppliers

**‘The challenge for retailers is to find an effective way to implement the delivery of sustainability in the supply chain into the performance measurement of their buyers.’**

**If policies of sustainability are to be delivered, what will be the costs and who shall pay? Internal efficiency programmes deliver good figures to the bottom line while saving energy. In the supply chain it is more complex, but when sustainability is established in long lasting supplier partnerships, everybody wins.**

#### **3.1** Quantity or quality? The responsibility of buyers.

Customers expect companies to be responsible and companies need to protect their reputation.

The global food business is beginning to expect improved awareness from buyers about how food is grown, processed, packaged and sold.

Many buyers consider quantity before quality, but to be sustainable, there must be both. Many in the industry still don't recognise this new reality even though their CEOs and a growing number of consumers ask for it. The stories of unhappy suppliers driven out of business by ruthless buyers are frequent and real. Documented examples do not exist where both parties are able to truly explain what happened. There are clearly such things as poor supplier performance on the one hand and ruthless business practice on the other. Unfortunately, the real victims of these failed business relationships may be those at the base of the pyramid. Struggling farmers have to deal with debt, markets and the weather. The consequences for them may be unintended, but it makes them no less real.

Public authorities do investigate how the retailers buy and sell. In September 2009, the European Commission launched an investigation into the failure of retailers to pass on price cuts in the dairy industry to consumers. In the UK there has been a succession of mostly inconclusive official enquiries into this subject over the last ten years. For one of these enquiries, Frank Thompstone, a farmer, wrote to the UK Competition Commission on 23rd January, 2007:

'We run a free range egg producing business that started in Sept 2005. In November we were advised of a likely price rise for our Free Range Eggs - probably in early 2006.'

- In January 2006 we understood that it would likely be 3 pence per 12 egg pack.
- In February 2006 Tesco announced a 3 pence drop in their selling price of free range eggs.
- The next day ASDA dropped theirs by 4 pence.
- We received notification that there would be no price rise!!
- Between July and September 2006, I believe that the supermarkets free range egg prices rose by between 16 and 20 pence. In October 2006 we received a rise of 2 pence!'



The National Farmers Union wrote to the Commission as well. After listing ten areas of concern such as varying terms of business, contributions to profit targets and payments for securing business, they described how their members felt about going on the record:

‘Unfortunately, no member whom we have talked to is prepared to be identified for fear of losing valuable contracts. We are in no doubt that a climate of fear and oppression exists amongst suppliers. The retailers’ dominant position in the market place is such that a single retailer contract can determine whether or not a supplier (large or small) stays in business. This creates an imbalance in negotiating strength which supermarkets can, and do, exploit.’

In summarising their submission, the NFU described the change they would like to see:

‘...a sustainable food supply chain that offers consumers choice, high standards and good availability of product. This can only happen in a properly functioning supply chain that is transparent and where fear and oppression are replaced by genuinely competitive supply chain arrangements that allow all elements of the supply chain to work together, whilst at the same time providing exceptional value for money for consumers.’

The response from Tesco (number 3 in the world with 56bn euros grocery sales) included the introduction of an annual anonymous supplier survey in 2005. This provides buyers with objective data on the experience of their own suppliers. In 2008, they reported that 5% of their suppliers find them to be disrespectful (8% in 2005) and 10% say they are unreasonable (26% in 2005).

Policy innovation includes buyer training. In 2008, two UK retailers participated in a project aiming to expand their knowledge of the people in their supply chains and to encourage buyers to consider international development issues. It was initiated by the International Institute for the Environment and Development (IIED)<sup>5</sup>. The two retailers involved were the Co-operative Group (10 billion euros grocery sales) and Tesco.

Also in the UK, The Chartered Institute of Purchasing and Supply (CIPS) in partnership with the trade development experts, Traidcraft, created ten ‘fair exchange’ procurement principles in 2008. Their work was entitled ‘Taking the lead<sup>6</sup>’ and it helps buyers to benchmark their organisations’ capability against the principles so gaps can be closed. They also devised an online test on good procurement practice, the ‘Buying game’.<sup>7</sup>

Looking forward, the challenge for retailers is to find an effective way to implement the delivery of sustainability in the supply chain into the performance measurement of their buyers.

### 3.2 Primary production

During the 1930s, prairie farmers in the USA were losing their topsoil to erosion by wind and water. In response, the government sent out brochures which detailed the problem and suggested solutions. The attempt to encourage change failed so a new approach was tried that involved close engagement and direct assistance with a few willing farmers. They modelled the new techniques; their neighbours saw the success and joined in. The new practices spread quickly<sup>8</sup>.

There are other examples of such proactive relationships with farmers. In 1992, Tesco started the ‘Nature’s Choice’ integrated farm management scheme. It set safety and environmental requirements and over 11,800 farms are now registered in 62 countries. Critics say it adds unnecessary cost, but farms supplying Tesco have always been closely involved in the design and governance of the standard and they remain competitive.

Social considerations are also driving engagement with farmers. In Colombia in 2001, Carrefour offered to buy produce from farmers who wanted to stop growing coca for illegal drug production. This remains an ongoing project, with 45 products in a specific private label range in 2009. In China, since the end of 2007, Carrefour has been working directly with farmers northwest of Shanghai. There, 40,000 farmers will settle on 160 km<sup>2</sup> of land bought by a joint venture company to supply contracted volumes of produce for Carrefour’s local stores.

Sustainability in farming is now being modelled on a huge scale and the practices are spreading, not only because the market requires them, but also because, just like the advice on stopping erosion, they actually work.

<sup>5</sup> <http://www.iied.org/pubs/display.php?o=160211ED&n=1&l=87&k=standard>

<sup>6</sup> [http://www.traidcraft.co.uk/news\\_and\\_events/news/responsible\\_procurement.htm](http://www.traidcraft.co.uk/news_and_events/news/responsible_procurement.htm)

<sup>7</sup> [www.thebuyinggame.org](http://www.thebuyinggame.org)

<sup>8</sup> Nisbett, R.E et al, 1976 “Popular Induction: Information is not always informative, Cognition and Social Behavior, 2, 227-236

The Dutch food retailer, Royal Ahold, has stores in Europe and the United States. You won't see their name on any storefront as they have retained their local brands in each country. For example, in Europe they have the Albert Heijn chain in their home market in the Netherlands while in Sweden, Norway, Estonia, Latvia and Lithuania their stores, in a joint venture, are named ICA or RIMI. Albert / Hypernova are their food retail brands in the Czech Republic and Slovakia, while in the USA there's Stop & Shop, Giant and Peapod. For 2008, there were combined sales of 25.7 billion euros and over 200,000 people are employed.

Their approach to corporate responsibility includes the usual activities that can be expected from any reputable food retailer. However, for sustainable trade, they have added an innovative level to their strategic thinking by including product safety. This shows their consideration for the social impact of failure on their consumers' health and wellbeing.

**Royal Ahold sustainable trade policies in summary**

- Build partnerships with suppliers
- Understand the critical commodities
- Collaborate with the industry
- Work with experts from civil society

Royal Ahold has always shown leadership in collaboration with their competitors. They have been involved at the early stages in a number of programmes such as the Global Food Safety Initiative (GFSI), the Global Social Compliance Programme (GSCP), the Business Social Compliance Initiative (BSCI), The Roundtable on Sustainable Palm Oil (RSPO), the Roundtable on Responsible Soy (RTRS) and GLOBALGAP.

Hugo Byrnes is the Director for Product Integrity at Royal Ahold:

**“I've learnt that we all face the same issues and by working together can help each other.** I think the best example is the GFSI. At Ahold we used to act alone, sending auditors around the world. It didn't really do us that much good and it was very expensive. We compared our work with other retailers and found best practices together. We went on to share policies and have achieved great things.”

Ahold was among the first retailers to specify acceptance of any food safety certification endorsed by GFSI for their private label products. Their positive experience with collaboration on food safety policy drove their decisions to tackle the global issue of human rights in their supply chains when they first joined the BSCI and then the GSCP.

Hugo says:

‘In labour standards we are still trying to understand what best practice looks like. We are at an earlier stage than we were in food safety. Our key contribution to the BSCI has been to help drive their code for primary production in the food chain. With GSCP, I believe the progression during 2009 on agreeing best practice across all sectors will provide a genuine foundation for convergence.’

For the environment, retailers are at an even earlier stage. In March 2009, Ahold published their carbon footprint information for the first time. They report on their own direct impact including that of their supply chain and consumers. This work enabled a new target of 20% reduction per square meter of sales area by 2015 against their 2008 baseline data.

Environmental work continues to raise new challenges for Ahold, in particular for seafood.

Hugo says:

‘Last year we implemented a group-wide seafood sustainability policy based on active collaboration, the promotion of sustainable seafood and the avoidance of species that have been over-fished. We introduced new sourcing rules and an assessment tool. The individual retail companies work with local NGOs. For example, in the USA there is a partnership with the New England Aquarium and the Shedd Aquarium, and in Sweden and Holland with the World Wildlife Fund (WWF). They advise us on our range.

**We notice our consumers do look for the label and read the extra information on our websites.** We've seen good sales uplifts and believe these are because of our policy. Certification schemes, such as the Marine Stewardship Council, have been a useful solution to get sustainable products onto our shelves, but this does not stop us from working hard to drive standards into the mainstream. For example, we have been active in bringing fair-trade and organic fresh produce from Africa. This trade has helped us finance the Albert Heijn Foundation that has been set up to support projects on education, housing and health in Kenya, Ghana and South Africa. We have also created this year our new private label brand “Puur & Eerlijk” that features products grown with extra care for people or the environment. We're planning 500 products in the range in due course and have co-operation from the Max Havelaar Foundation (fairtrade) and the WWF.

Because of policies like these, our buying teams everywhere work in a quality framework that is quite different to the traditional cost model.

**I don't just want to measure our environmental impact. I believe the biggest challenge that we face is to actually change it.'**

**Royal Ahold – Top 3 Policy tips**

1. Sustainability policies must be driven from the top – engage the CEO and include corporate responsibility targets in buyers' objectives
2. Inspire suppliers to act by building partnerships based on fair policies, clear expectations and regional support
3. Make sure policy setting is market focused – listen to your customers

## Chapter 4

### Engaging with competitors

**‘New policies will result in exclusion for those that are not able or do not wish to comply.’**

**The market around the world for retailers is highly competitive. The sustainability challenges set by consumers and public policy has driven co-operation between companies because by working together, progress is accelerated and costs are shared. However, the market is diverse with different levels of engagement, including the discounters and wholesalers.**

#### 4.1 Initiatives and alliances

Big challenges require big solutions. No single company can solve the challenge of sustainability on its own, so the organisation of networks is essential. Suppliers are often shared, so are ingredients and raw materials. Collaboration on business practice will provide a shared benefit to the companies involved as buying and manufacturing becomes simpler.

A key feature of the food industry over the last ten years has been the emergence of new alliances facilitated by the established trade associations. However, for sustainability issues, the governance of such groups must demonstrate credibility. Multi-stakeholder initiatives, such as the Roundtable for Responsible Soy Production, have businesses working together with expert civil society stakeholders. The economic, ecological and social impacts of rapidly increasing soy production required a new approach to the reactive dialogue that was taking place.

This was provided by the Roundtable, with nearly a hundred companies involved, including four European retailers: Ahold, Carrefour, Coop Switzerland and Marks and Spencer. Their involvement will support their own policies in the use of the soybean, one of the most important commodities for the food ingredient industry, in their private label ranges. Their policy context will be industry-led.

Initiatives and alliances find that the road to progress is never smooth as the participants can struggle to understand each other's positions. But convergence in practice and policy does drive change.

In July 1999, things changed for the ASDA team in Leeds, Yorkshire. The company had been bought by Wal-Mart. Ten years later, Wal-Mart International, with combined sales of 66 billion euros (25% of Group sales) is the world's fifth biggest retailer. This includes the contribution of ASDA with banner sales of 23.8 billion euros, of which 70% was grocery. Their financial performance during the recession is strong with 8.4% 'like for like' sales in the first quarter of 2009, due to a combination of strong cost management supporting their existing price position.

The analyst Planet Retail maintains guides on retailers around the world. Their 2009 analysis of ASDA's position on sustainability will have bought smiles to faces in Bentonville, Arkansas (Wal-Mart's head office in the USA) as well as in Leeds. 'ASDA has been a credible and innovative pioneer of commercially prudent sustainability, while other retailers have engaged in expensive tokenism and showboating.'

In August 2009, Andy Bond their CEO, talking in London about consumer spending in the recession, said:  
 "Retailers will have to respond by adapting their business models if they are to survive. Retailers with authentic low cost operating models, who embrace sustainability and who are transparent about how they pass savings onward to their customers will be the winners. Those who continue with high/low pricing will become increasingly distrusted."

Cost control by retailers can be split into three areas: stores, office and distribution. ASDA's distribution and logistics teams have made a key contribution to their healthy financial and sustainability performance in a difficult time. In 2005, they set a challenging target to reduce their carbon emissions by 40% over five years. That plan will be completed at the end of 2009 and the target will be achieved. Simon Pearson is their Head of Central Operations:

**'Sustainable transport has been very cost effective for us.** Because we spend rather than make money, we're always under pressure to look for savings. We estimate that for every kilometre we don't drive we will save a pound (€1.10). For example, our double-decker trailer initiative will save 7.5m miles (12m kms) this year. This means 12 million british pounds (15.8 million euros) can be invested in price for our customers. The environmental win is good as well. A separate example is from our investment in automatic gearboxes that has saved 354,000 litres of fuel a year.

We estimate that every litre of fuel that we don't use saves 2.6 kg of carbon, so that's a reduction of nearly a thousand tons of carbon. We have other changes to improve our fuel efficiency, such as aerodynamic trailers and driver training. **Most of our wins have been about good transport management with no significant capital investment.'**

There is a strong story of European industry collaboration. The ECR (Efficient Consumer Response) initiative works to break down barriers between trading partners and internal business functions. ASDA is part of the ECR Europe Sustainable Transport Group, co-chaired by Simon Pearson and Patrice Minzolini of Cadburys.

Simon says:  
 'There are 30 companies in that group and I've got to know them well. There's a good mix of retailers, manufacturers and service providers. For anybody who is interested, there are some great case studies on the ECR website<sup>9</sup>. Having a strategy that worked and was in line with the industry has been very useful. Now in the ECR UK group we're looking at vehicle technology. This new network has been a very significant step forward for the industry over the last three years.

At ASDA we need a new plan for the next five years. I expect we will be setting a target of about another 20% reduction in emissions. The work agenda will not actually be very different. We will work on software (our Paragon system has helped a lot) and our vehicles. We'll be reducing road miles with smarter planning and better use of trains and ships.

**I'm certain we will have a lot more work to do on improving vehicle fill. That has contributed about half of our savings so far and there's room for further improvement.'**

#### ASDA policies for distribution and logistics in summary

- Improve vehicle fill through further 'double-deck' integration
- Reduce empty running through backhaul & fronthaul initiatives
- Improve the physical alignment between the stores and the stock
- Improve fuel efficiency with both technology and driving skills

#### ASDA – Top 3 Policy tips

1. Sustainable transport is part of the day job – it's not a project
2. Keep it simple and concentrate on things that can actually be changed
3. Build a network within the industry – share your ideas and your knowledge

## 4.2 Labour standards and livelihoods

Work can be dangerous. Within US agriculture, farm workers die on the job at rates five times higher than other comparable work.<sup>9</sup> California, where a great deal of America's food is grown, has the highest level of poverty of any US state<sup>8</sup> and the minimum wage is \$8.00/hour (or €5.64/hour). There's a mixture of deprivation, safety issues and illegal jobs, a list that should be enough to make a retailer's risk manager run for cover. How can food safety be consistently delivered under such circumstances?

The pressure to do something in the food industry remains relatively low, certainly compared with the garment industry. There's lots of collaboration going on but the lack of resulting improvements for workers is worrying. A global social audit industry has emerged but the real challenge is effective remediation.

The Business Social Compliance Initiative (BSCI), though originally not focussed on food, was launched by twenty companies in March 2003 to collectively deal with labour issues in shared supply chains. In 2009, BSCI includes 12 major food retailers in its 300 member companies and offers companies a monitoring system that covers products sourced from any country. Their approach combines monitoring by third party companies with capacity building through new local networks in Europe and Asia. There is also Social Accountability International with retail members Coop Italia (11 billion euros grocery sales) and Carrefour.

However, the alliance that policy watchers are now tracking is being driven by the world's three biggest grocery retailers: Carrefour, Tesco and Wal-Mart, which are now joined by businesses from all sectors, including the two fruit giants, Chiquita and Dole. Its Advisory Board includes the International Federation of Human Rights, the United Nations and the World Wildlife Fund. The Global Social Compliance Programme<sup>10</sup> is delivering open-access best practice reference tools that will drive retailer policy convergence over the coming years.

The effort to improve jobs is relevant everywhere. But for small farmers in developing countries the challenge is to protect their livelihoods. The lack of data or even agreed definitions about the role and plight of small farmers makes it difficult to understand or manage the impact of purchasing decisions. The retailers that consider such farmers must find a new way to share risks, understand responsibilities and identify benefits. The 'Fairtrade' certification approach can work with organised groups of farmers. Where such groupings are impractical, alternative models need to be identified.

In Kenya, ASDA is co-funding a value chain for the 'New Business Models for Sustainable Trade' project, led by the Rainforest Alliance and the Sustainable Food Laboratory. With co-funding by the Bill and Melinda Gates Foundation, procurement of flowers by ASDA from small farmers is working, thanks to the provision of technical co-ordination and the trial of new approaches to price transparency and credit.

<sup>9</sup> [http://www.ecrnet.org/05-projects/05-projects-sustainable-roadmap\\_a.html](http://www.ecrnet.org/05-projects/05-projects-sustainable-roadmap_a.html)  
<sup>10</sup> [www.gscpnet.com](http://www.gscpnet.com)

## 4.3 Public policy on environmental sustainability

Governments aim to create a regulatory framework that will emphasise the critical threat presented by environmental problems in three key areas: production, waste and carbon.

For production, some retailers already have long-standing policies on their supply chain management. In Europe there's a mature collaboration centred on the GLOBALGAP private standards. Their focus has been that food safety issues are requirements, while environmental and social issues are options. Over 40 European retailers are members and participation is now expanding to include AEON from Japan and Wegmans from the USA. American and Canadian retailers are working within their trade association, the Food Marketing Institute. In both examples the retailers are looking to apply risk mitigation on their food supply and thus future profit and availability, secured by the shared application of production standards to drive sustainability. The lack of progress by the retailers on standards for agricultural commodities is also notable, though the brand manufacturers started work on their Sustainable Agriculture Initiative Platform in 2002.

There is action on the other two key areas of waste and carbon. The European Commission launched its 'Sustainable Consumption and Production Action Plan' in 2008 and proposed a Retail Forum. The response from the retailers was a new alliance of 24 companies<sup>11</sup> that developed the 'Retailers Environment Action Programme' (REAP). This includes a public record of commitments on sustainability called the 'Matrix of Environmental Action Points' (MAP). The matrix is an open, dynamic summary of retail actions and initiatives. The information will be presented in three segments: What is sold, how it is sold and how communication to consumers is undertaken.

By producing such a public document, the participating retailers will share a constant record to enable consistency in their policy making. Through their collaboration, an understanding of best practice will emerge. The many retailers that do not participate will at least be able to benchmark their own activity.

<sup>11</sup> <http://ec.europa.eu/environment/industry/retail/pdf/members.pdf>

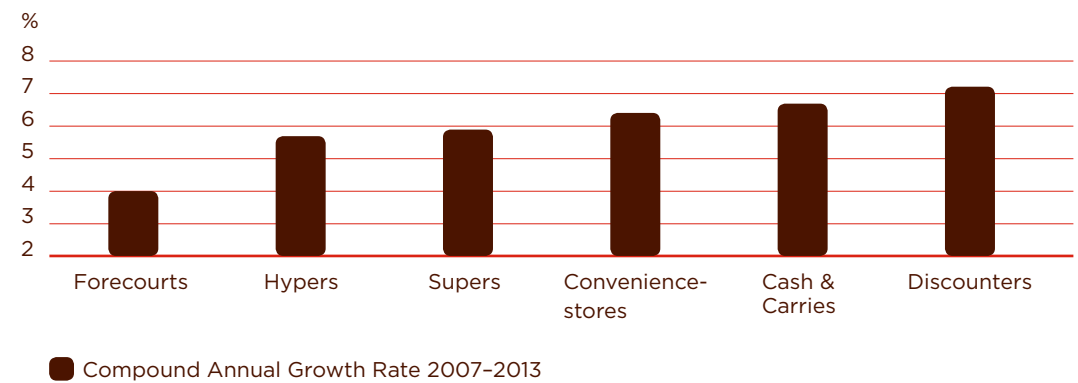
#### 4.4 The level playing field

Diversity in the market creates an extra challenge for those seeking a sustainable future for the food industry. The big transnational retailers with their large management teams and sophisticated IT systems have been setting the pace. Wal-mart announced in July 2009 that all suppliers globally must calculate and disclose the full environmental costs of making their products. Wal-Mart will use the information to rate each product along with its price. This will enable consumer choice and help them drive the market. The work, intended to be open-access, will be led by a new organisation, the 'Sustainability Consortium'<sup>12</sup>, facilitated by the Universities of Arkansas and Arizona. Founders include Cargill, Pepsico and Unilever. In an unprecedented meeting in September 2009, a Wal-Mart team visited the offices of America's number 2 food retailer, Kroger (number 5 in the world, 49 billion euros grocery sales) to discuss collaboration within the Consortium.

There are also the discounters who are taking the lead in the race for grocery market share as consumers are increasingly taking up price offers during the recession. Investment in marketing, new store concepts and broader product ranges are cited as some of the reasons behind their strong growth. Their supply chain management has always been 'light touch'. Their marketing position, based on price, until recently had not included claims about quality, the environment or labour standards. Consumers, encouraged by regular stories in the press about working conditions in the discounters' supply chains and stores, can get an impression that such practices fit well with a low price system. Called to account by their consumers within Germany, the world's biggest discounters, Lidl (the Schwarz Group, number 4 in the world with 54 billion euros grocery sales) and Aldi (number 6 with grocery sales of 49 billion euros) have both recently joined GLOBALGAP and BSCI.

However, the development and implementation of sustainability into the food industry is expected to have a price tag. New policies will result in exclusion for those that are not able or do not wish to comply. The traditional wholesale markets, many with minimal controls, represent a convenient outlet for any product that doesn't reach the specifications of other buyers. This sub-market may remain as healthy as ever if enough buyers choose not to enforce standards.

#### European Channel Annual Growth Rate Forecast 2007-2010



Source: Planet Retail Ltd [www.planetretail.net](http://www.planetretail.net)

## Chapter 5

Solutions, benefits and recommendations

**‘A small group of thoughtful people can change the world. Indeed, it’s the only thing that ever has.’**

Margaret Mead, Anthropologist

**The risk associated with failing to benchmark against the leaders means action is essential for all retailers. Lack of experience and resources means those who can find transparency in their marketing and efficiency through their collaboration will be rewarded by improved customer loyalty.**

### 5.1 Solutions

#### Transparency

The development of policies by global retailers is gathering speed and influence. Driven by their CEOs and consumers, innovations are widespread. The best approaches are characterised by openness in communication and marketing.

Retailers that accept accountability for the effects of their buying are demonstrating a direct response to civil society values of integrity, honesty and objectivity. In particular, the consideration of a social or public good as an expected outcome of business means that policy can become a powerful tool for change in the field and on the plate.

#### Collaboration

Sustainability requires a joint effort. No single company, country or region can solve global challenges.

The business alliances that deliver sustainability will be characterised by their strong relationships, their lack of internal competition and their open communication with international organisations, civil society stakeholders and governments.

### 5.2 Benefits

#### Simpler Buying

- Driven by consistent policies based on good practice, the approval of new suppliers, factories or supply chains will be simpler.
- Understanding environmental and social impact will become crucial for every business.
- The food industry will contribute to achieving climate change and poverty targets.

#### Reduced costs of failure and waste

- The emergence of sustainability best practice will mean failures are reduced. Putting things right once should be all that is required.
- Efficiency gains in energy use will provide cost savings in distribution and stores.

#### Delivering customer expectations

- The consumers that are demanding change are essentially young. Tomorrow’s customers will take for granted that mainstream food production will be managed for sustainability.

### 5.3 Recommendations

- Retailer policy makers need to consider social impact so consumers can be effectively encouraged to help drive sustainability.
- The challenge must be shared fairly with suppliers and competitors.
- The required change must be identified, understood and measured consistently.

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