FMCG / CPG

Are brands living up to their PR hype in a sector full of promise?
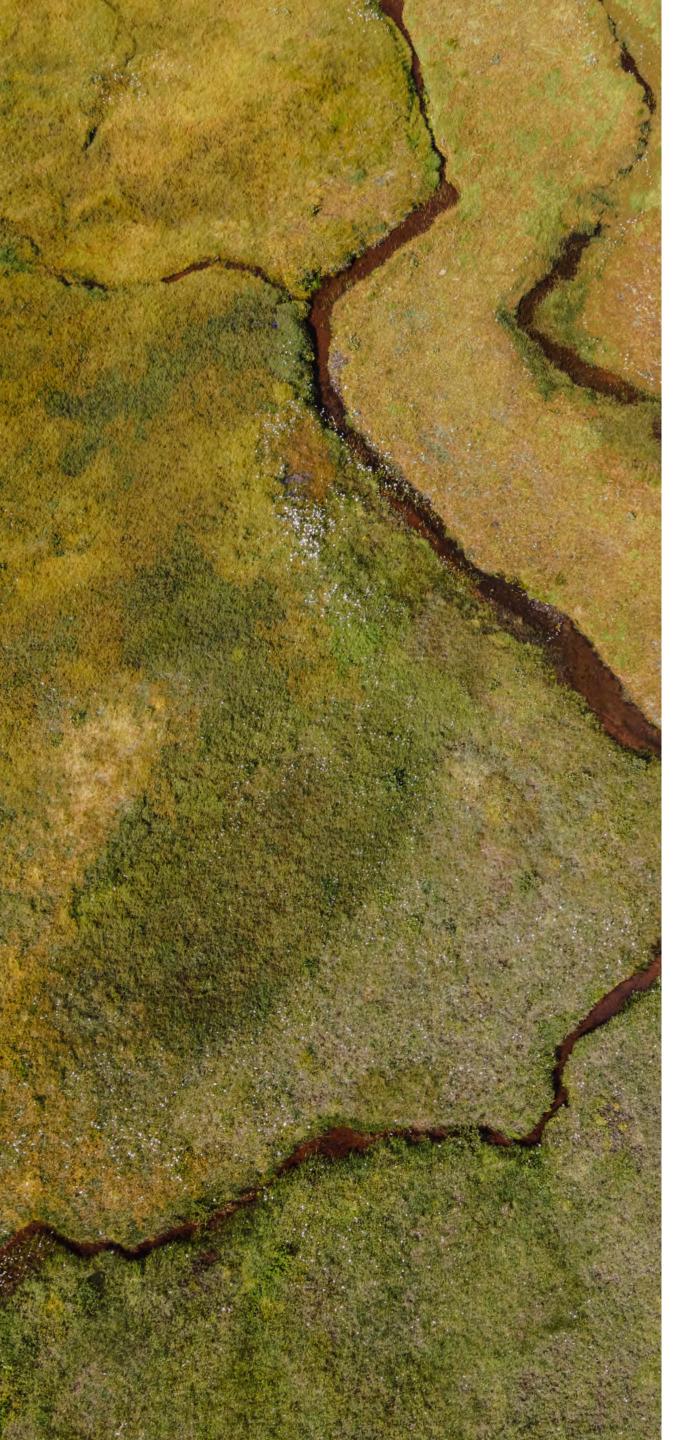
About this report

Circklo's Sustainability Sector Reports are designed to help professionals from a variety of backgrounds understand how to implement and scale circular practices within their own businesses.

Sector reports contain research and information defining the current "state of circular play" in key commercial sectors and offer definitions and practical advice for planning and creating frameworks and processes, understanding resourcing and timelines, implementing activity and measuring results.

In addition, reports contain in-depth, real-world examples of circular and sustainability programmes to help you implement successful projects and transformation in your own business. We have also included links to further reading and useful information.

Above all, this report is designed to showcase how attainable sustainability is within businesses of any size. While the global impact of linear models and waste is well-understood, it can often seem overwhelming, and much of the publicly available information on the circular economy is focused on large projects and 'big picture' impact.

At Circklo we firmly believe that circularity is an ongoing practice which can be successfully embedded in every action taken by every member of a business, driving accelerated growth, lower costs, better customer experiences and a more secure future for any business.

Research aim & methodology

The case studies in this report have been compiled to showcase the range of current approaches, adoption and progress towards sustainable models in the retail sector. In each of our sector reports, we look at businesses both large and small, showcasing attainable, practical and financially successful implementations.

Research methods include desk research and interviews with relevant sector experts and professionals.

About the authors

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Matt has worked in digital transformation for more than a decade, specialising in social media and content, and has headed social media and communication programmes at Econsultancy, Shell, Spire Healthcare, DueDil, Westcon-Comstor, Dentsu-Aegis and more.

He is the author of more than 5,000 marketing articles, including the world's first Facebook Marketing Best Practice Guide, and is a regular speaker at global events.
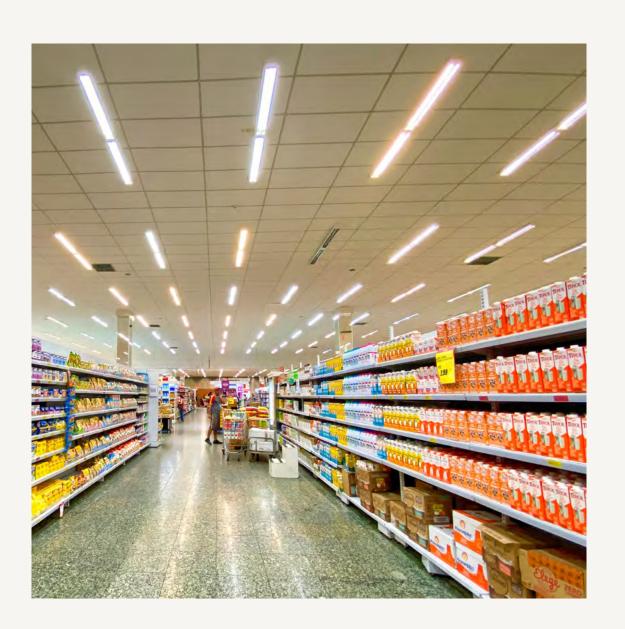
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Graham has been covering ecommerce and digital marketing for more than a decade. He is Editor-in-Chief at Salescycle, and has previously written reports and articles for Econsultancy, ClickZ, Search Engine Watch and more.

Twitter

About Circklo

Set up in London in 2020, Circklo created the first Business Configurator in the world specialised in digital start-ups for the circular economy. Circklo's main expertise is in developing seed stage start-ups in the sustainability area. It offers start-ups both the opportunity to raise capital and accelerate their business and, also, to configure their business in such a way that purpose and profit can successfully coexist and complement each other in the 21st century digital world, fully using and embracing the principles of circular economy.

Why FMCG?

For FMCG, the clue is very much in the name. The Fast Moving Consumer Goods is set to achieve CAGR of almost 5.4% by 2025. Global FMCG market is expected to reach $15,361.8 billion by 2025.

With this enormous reach and ready impact on the daily lives of increasingly demanding customers, FMCG businesses are poised to reap the benefits of adopting circular approaches across their businesses.

According to a report by Nielsen, almost 75% of millennial purchasers are willing to pay more for 'sustainable offerings', while 84% of all consumers would actually switch their normal brand for one 'associated' with sustainability (EY, 2016). Indeed, 46% of global consumers say they would be willing to forgo brand names in order to buy environmentally friendly products.

'Healthy for me and healthy for the world' can be linked to top premium factors. Willingness to pay a premium for products that provide the following attributes or benefits:

Has high quality safety standards
Organic, antibiotic-free, hormone-free, non-GMO — 49%

Provides superior function or performance
Sulfate-free, hormone-free, minerals — 46%

Contains organic, all-natural ingredients
No artificial ingredients, preservative-free, paraben-free — 41%
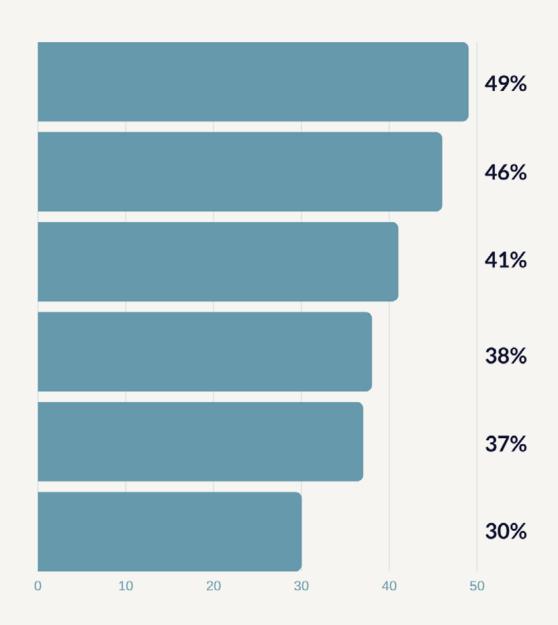
Contains environmentally friendly sustainable materials
BPA-free, Terracycle certified, compostable or plantable packaging, reusable — 38%

Offers / does something unique
Upcycled, from waste / recycled products, edible packaging — 37%

Delivers on social responsibility claims
Free-range, pasture-raised, humane — 30%

Source: The Conference Board Global Confidence Survey conducted in collaboration with Nielson Q2 2018

84% of all consumers would actually switch their normal brand for one 'associated' with sustainability.

Given the value placed on brand by leading consumer goods businesses, there is a clear financial case to be made here for sustainability. However, it should not be considered only as a route to reputational damage control or cost-saving: Sustainability's share between 2014 and 2017 grew nearly three percentage points, while conventional products' share of sales dropped by almost four.

SUSTAINABLE PRODUCTS: SHARE OF SALES

% of total store sales

	Sustainable products
	Other transparent label products
	Conventional products

Despite this, FMCG businesses have historically been slow to capitalise on these trends. 56% of Food and Beverage companies have no Scope 3 emission reduction targets for package wastage, while research from Greenpeace has identified that despite concerns from consumers, most FMCG companies focus sustainability efforts on creating packaging which is recycling, but fail to take responsibility for this process internally, or shifting focus towards reducing packaging or creating new delivery systems.

There is some evidence that this is improving, however. Despite relatively low investment in R&D, in 2019, 63% of FMCG companies have indicated some level of research into depolymerization and recycling infrastructure

Despite these changes being relatively small, they stand to make a huge impact, with sustainability efforts driving accelerated growth not just in existing markets, but also the increasingly important and previously under-utilised Base of Pyramid (BoP) market sector.

This segment currently spends more than 50% of its income on FMCG products, supplying almost $2.1 trillion in revenue. This change is largely being driven by increased demand in developing countries, with McKinsey finding that in Africa, FMCG household consumption is expected to grow at the rate of 3.8% per year reaching $2.1 trillion in 2025.

The rise of the middle class in developing territories is putting the impetus for transformation squarely at the feet of FMCG. High turnover typically demands more complex and less resilient supply chain models than many other sectors, and the increasing adoption of online purchasing and delivery is exacerbating this.

Circular models specifically target these weaknesses, allowing businesses that grasp the opportunity to benefit from lowered risk and more predictable growth in new markets. In addition, FMCGs that have historically focused on low prices are increasingly finding this also equates to low consumer engagement, meaning sustainable companies are increasingly able to compete with established brands.

In order to move forward and grow with confidence, it's clearly time for FMCG to focus on sustainable, circular solutions. Ultimately the market can and will decide if circular models are adopted at scale in the next decade, but there must be appetite within companies to drive this change and make the move from Fast Moving Consumer Goods, to Fast Moving Sustainable Goods.
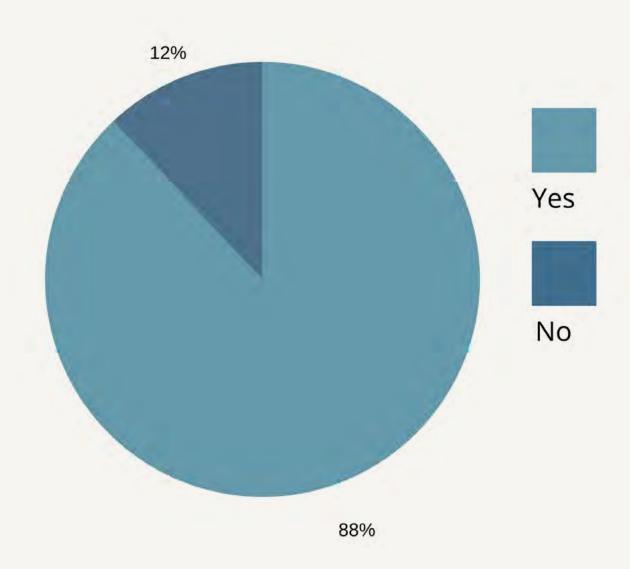
Executive summary

The need for sustainability initiatives in FMCG businesses continue to evolve rapidly.
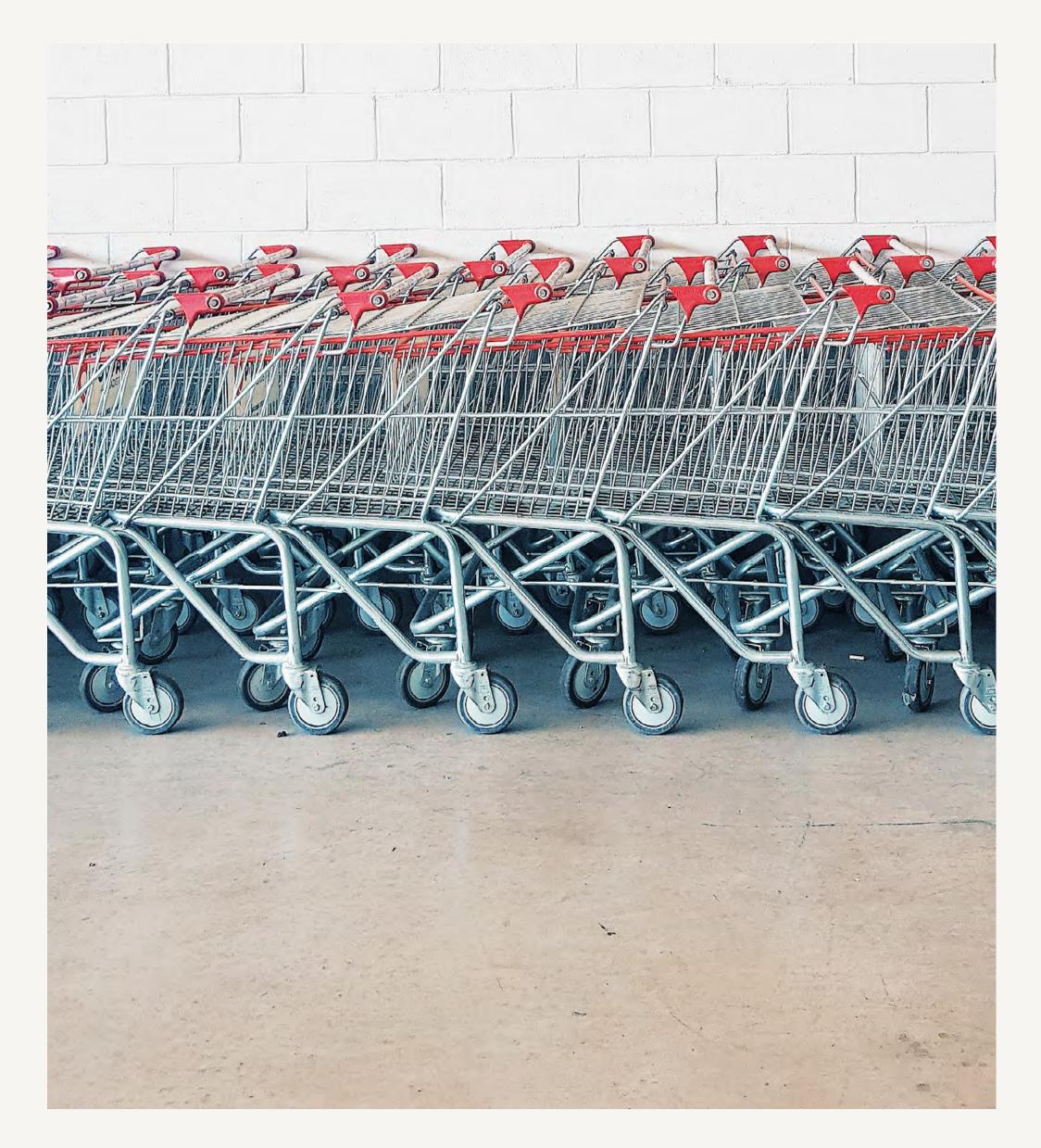
Recent external considerations for FMCG businesses include the growth of Word of Mouth as part of marketing and PR commercial models, with viral intent now routinely built into marketing content. Companies increasingly want to showcase their positive efforts, as there is a growing volume of research to show that consumers are actively seeking out brands which can help them practice sustainable principles in their own lives: 88% of consumers want brands to help them live sustainably.
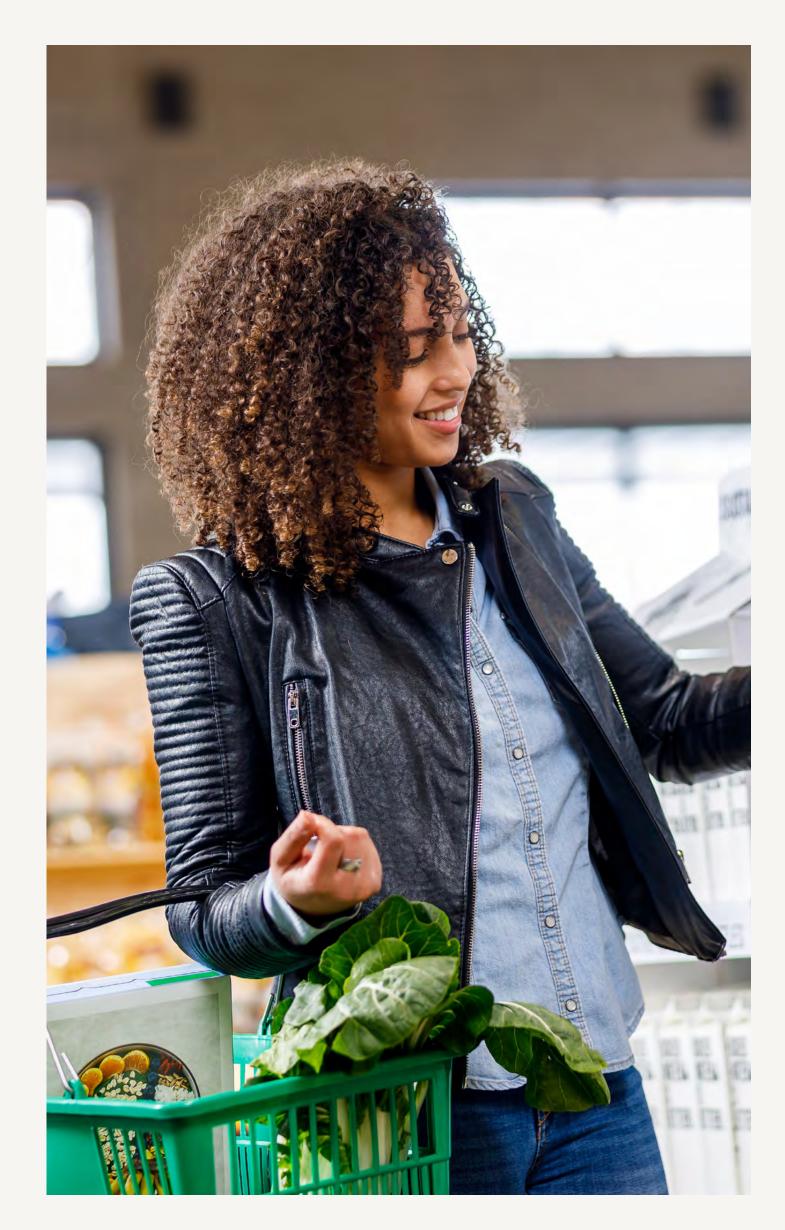
However, it is important that brands ensure their initiatives live up to the promises of marketing, or they can risk highly volatile and negative PR and significant loss of short-term revenue and long-term customer loyalty.

WOULD YOU LIKE BRANDS TO HELP YOU BE MORE ENVIRONMENTALLY FRIENDLY AND ETHICAL IN YOUR DAILY LIFE?

12%

88%

Yes

No

USA and UK combined percentages.
Survey of 1,004 respondents in the USA and UK.
November 2018 for Futerra by OnePulse.

Circular models offer one of the most important opportunities for businesses

Going beyond CSRs, a truly circular approach offers significant financial benefits, impacting most obviously on resource usage and waste, but also coming under increased scrutiny as part of company risk management and financial liability models.

Beyond this, there is clear evidence to show that credible sustainability enhances sales growth potential for a variety of consumer products:

SUSTAINABILITY SELLS

	Overall category sales growth	Sustainable products sales growth
Weighted average of 3 categories	**+2%**	**+5%**
Chocolate	**+5%**	**+16%**
Coffee	**-1%**	**+1%**
Bath products	**+1%**	**+14%**

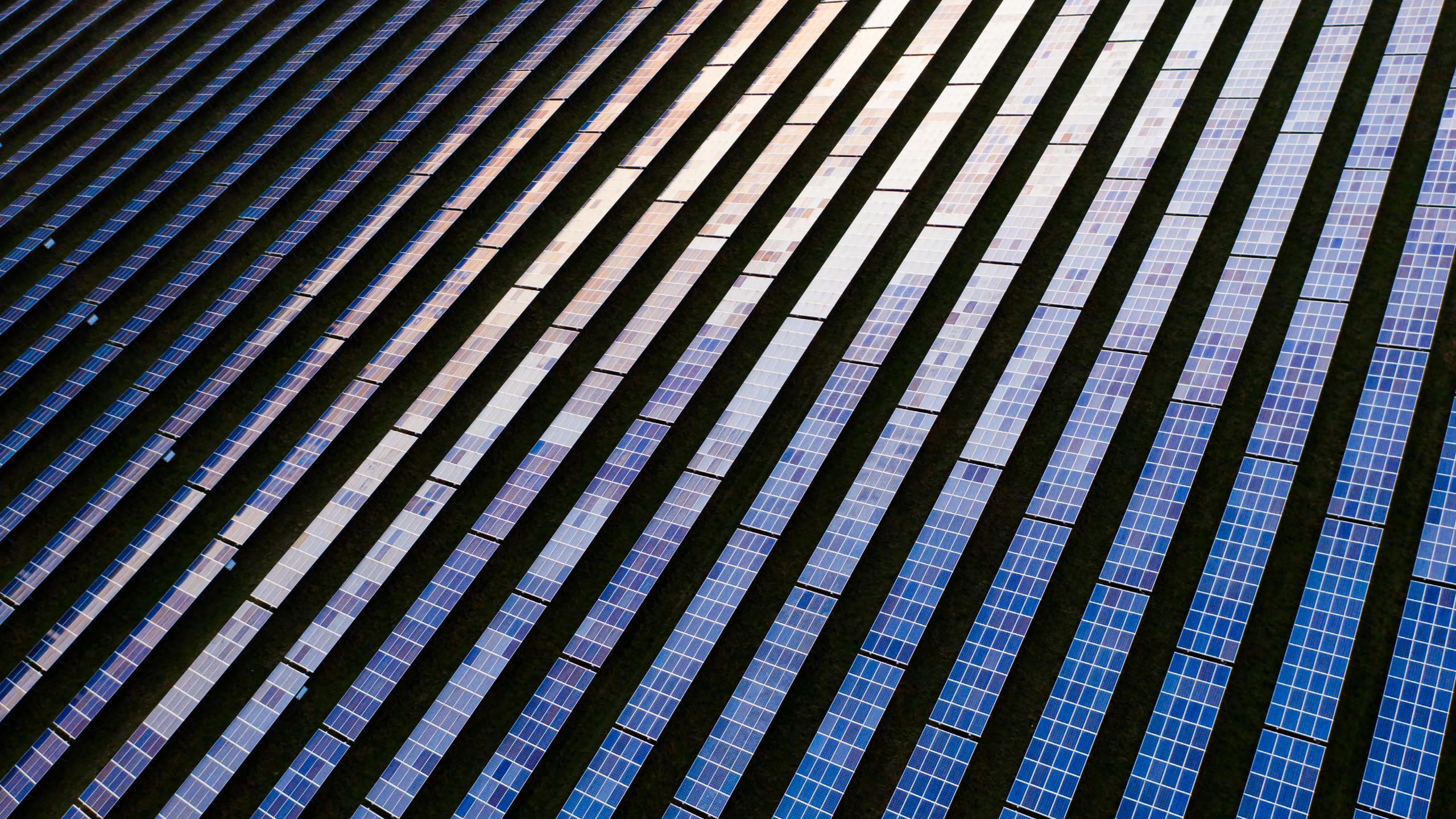Copyright Nielsen 2018 : What's sustainability got to do with it?

Successful implementation requires integration

As demand increases, it's important to realise that a mature strategy needs to avoid placing circular initiatives into silos. To gain real value, project owners and business leaders need to have the ultimate aim of integrating circular practices into everyday activity, across different departments.

Speaking at Circular Economy Week 2020 in London, Sustainability Expert Dan Epstein noted that while some new roles may be needed to help drive design and logistics changes, successful sustainability operations are largely about building the desire to change systems and behaviours at a team level, across an entire company. Change agents and effective communication from leadership are essential here.

As Ethical Corporation noted in 2019, "20% of packaging innovations were rolled out at group level and over 40% were considered to be incremental innovations or small product-level tweaks.

Circular implementation can and will affect every aspect of a business, from product design and development, to operations, services and facilities, marketing, human resources, sales, logistics, finance and beyond, so a clear understanding and shared vision is crucial.

Key business models for sustainability

Business models are maturing. While some businesses have been implementing circular practices for many years, more recent practices have seen the emergence of several accepted methodologies which can increase the adoption and success of programmes. Key models include:

Process model

Process models attempt to build circularity in at every stage of a product's life. Materials used are 100% recyclable or renewable, and any waste is entirely biodegradable.

This means that every component can be used in consecutive lifecycles; reducing costs while increasing supply chain predictability for a business. Implementing this type of model often requires a company to rethink a majority of its existing processes, starting with design. Material use needs to be minimised at the beginning of production and should be easy to separate at the end of a product's life to allow efficient renewal or recycling.

Many businesses are extending this recovery process to create 'industrial symbiosis'. What was previously thought of as waste is traced and recovered. Businesses often incentivise customers to return their worn-out products*, allowing the company to disassemble and reuse components, creating higher (upcycled) or lower (downcycled) value products from materials that were previously discarded.

Footwear retailer Runner's Need incentivises customers to return old, worn-out shoes in exchange for a 20% discount on a new pair through their 'Recycle My Run' programme:

The new shoes typically use recycled tire rubber as a core component.
*This practice is increasingly common with Shopping Products and in the fashion sector and can utilise the increased move toward subscription models across the consumer sector.

Smaller, single use products face additional challenges adopting this model, as they may need to collaborate closely with local reclamation facilities, or third-party logistics suppliers to effectively reclaim individual product packaging.

Lifecycle extension model

Other businesses focus on providing a product which is designed to last as long as possible.
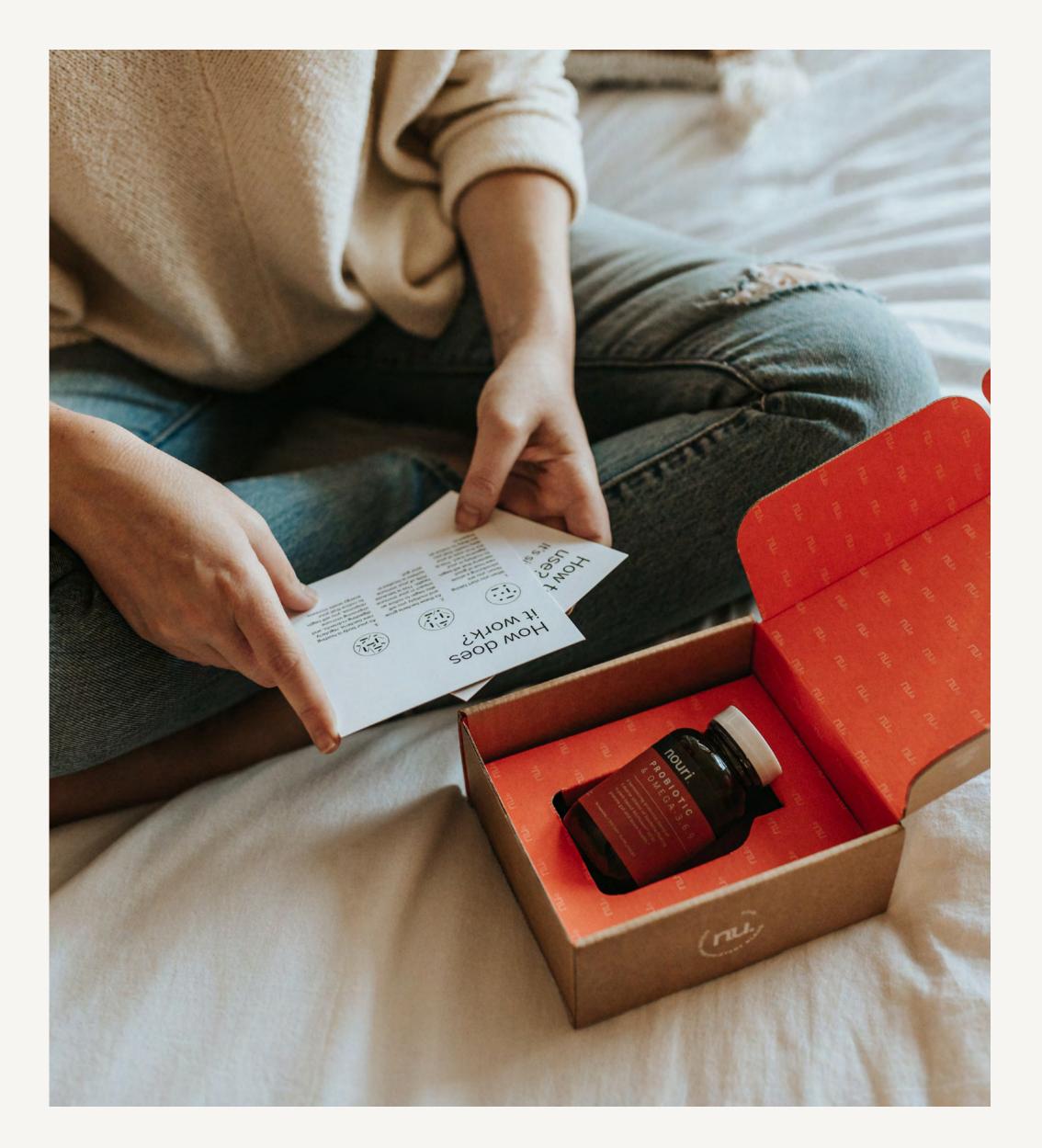
While this may seem an obvious approach, it is worth considering the rise of 'planned obsolescence' in electronics as a direct counterpoint to this movement. Designing a product with a long lifecycle could impact on sustained revenue, so these models again may require a switch to an 'As a Service' model. This in turn requires products to be designed for easy disassembly and upgrade, or the development of a remarketing strategy for 'as new' products, as shown by companies like Whirli, acting as a broker for used toys.

Lifestyle extension models can also choose personalisation and bespoke production as a basis for longevity and stable, recurring revenue.

If managed carefully, making high-quality products to order can allow businesses to develop a much closer relationship with individual customers. This also results in more control over the entire system, meaning easier reclamation of used products, better demand forecasting, and less loss from overstock.

Service Model

Service models look to remove ownership, in favour of a subscription or sharing model for products. Major examples emerging in the past decade are Philip's move to 'Light-as-a service', or HP's 'Print-as-a-service', which aim to reduce overall costs for the end user while allowing the business greater control over supply chains.
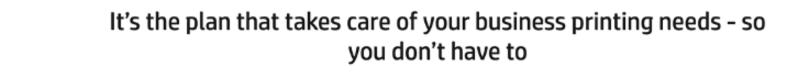
FMCG businesses do face challenges here, but the relentless focus by leading consumer brands on customer service in recent years has left FMCG uniquely positioned to offer outstanding, responsive service models.

Service models can also focus on the sharing economy, using digital to develop user networks where smaller overall numbers of products are used by multiple customers.

This is nothing new – tool hire centres have been a mainstay for many years – but more recently we are seeing applications at scale, and also new business models which provide access to products which may otherwise be wasted, usually at a reduced cost to the consumer. For example, Too Good To Go offers waste or surplus food from a variety of restaurants and food outlets directly to customers.

Several companies adopt a hybrid approach to these models, moving from one to another as technology and demand permits.

Microsoft represents a particularly salient example, where a shift in internal business structures allowed the company to uncouple revenue from the new product cycle, instead concentrating on recurring, predictable software subscriptions.

It's the plan that takes care of your business printing needs - so you don't have to

New HP printer at no upfront cost
Protected with HP security

Original HP ink and toner supplies
Delivered as you need them before you run out

Onsite service
Next Business Day Onsite Service[2]

Fixed monthly fee
With great savings built in

Defining sustainability for business

The Ellen Macarthur Foundation describes the circular economy as:

"…a systemic approach to economic development designed to benefit businesses, society, and the environment. In contrast to the 'take-make-waste' linear model, a circular economy is regenerative by design and aims to gradually decouple growth from the consumption of finite resources."

In business terms, there are clear opportunities for significant cost-savings here. However, it is important to remember that the circular economy is only one aspect of true sustainability.

At Circklo we believe that making this transition should be driven by business imperatives, rather than being seen as a singularly 'environmental' initiative. To be truly circular, transformation must encompass the economic, social and environmental aspects of business.

It's no secret that sustainability, and to a lesser extent, the circular economy, have become buzzwords.

Every day statistics are released which show growing concern about the sustainability of brands from consumers, and growing impetus for companies to set and perform against ESG targets. Indeed, we will visit some of these statistics in this very report. However, ESGs are not financial targets, so often exist outside of core business imperatives.

Within the industry, interest is significant. At Circklo our own audience research shows that more than 20,000 FMCG professionals are regularly mentioning the circular economy through their personal social media channels every month.

Despite this appetite for change, and the large-scale changes already in progress, for many companies sustainability is being treated as yet another compliance task, added to the ever-growing 'to do' list. While larger companies may have the luxury of a specifically appointed Chief Sustainability Officer to help create change, there is a genuine danger that we are creating silos for sustainability.

This is not a new concern. More than a decade ago, a growing awareness of digital began driving transformation for companies, with wholesale changes required both internally and externally. Those who coped and adapted to this change have soared ahead and benefited from enhanced growth. Those who did not have struggled to maintain their relevance, and often their bottom line.
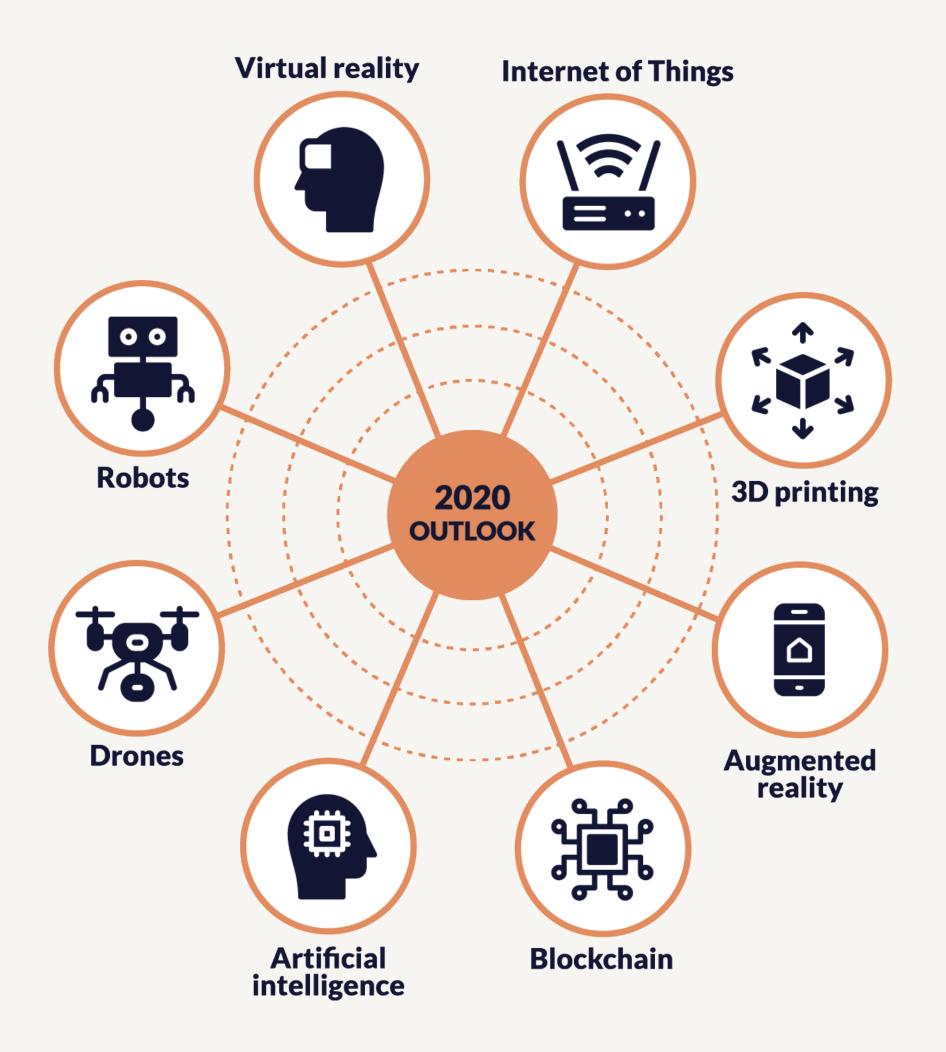
As digital has matured however, it has become apparent that a 'digital department' is not always the best way to implement the skills, processes and technology required. Traditional online and offline boundaries have shifted and melded, while highly distinct digital skills now pervade our businesses.

The difference between an IT team focussed on operational support, and a social media officer are manifest and multifaceted, yet both provide 'digital'. Does it then make sense for them to both report to the same person? Hindsight makes it clearer that this is not the best route forward, but it is often the most conceivable when dealing with a new business discipline – creating a 'centre of excellence', and this is still the case for hundreds of companies who are deeply enmeshed in their transformation journey – a journey that does not have a final destination.

While many businesses are unrecognisable when compared to their pre-digital selves, it is a mistake to assume they have successfully 'transformed'. All businesses must continue to adapt and evolve to maintain their competitive advantage. The digital road goes ever on.

Sustainability is no different. To succeed, it should be embedded across departments, because it will impact every facet of a business. Neither should it be seen as 'more work'. Digital Transformation was often a case of drawing our roadmap as we drove along it. This time, that same map can be applied to our sustainability programmes. By doing digital well, we create sustainability as a biproduct.

This does not mean we have all the answers. New integrations, innovations and applications are still needed to make sustainability work, but we have a much clearer picture of the processes and technology that can help.
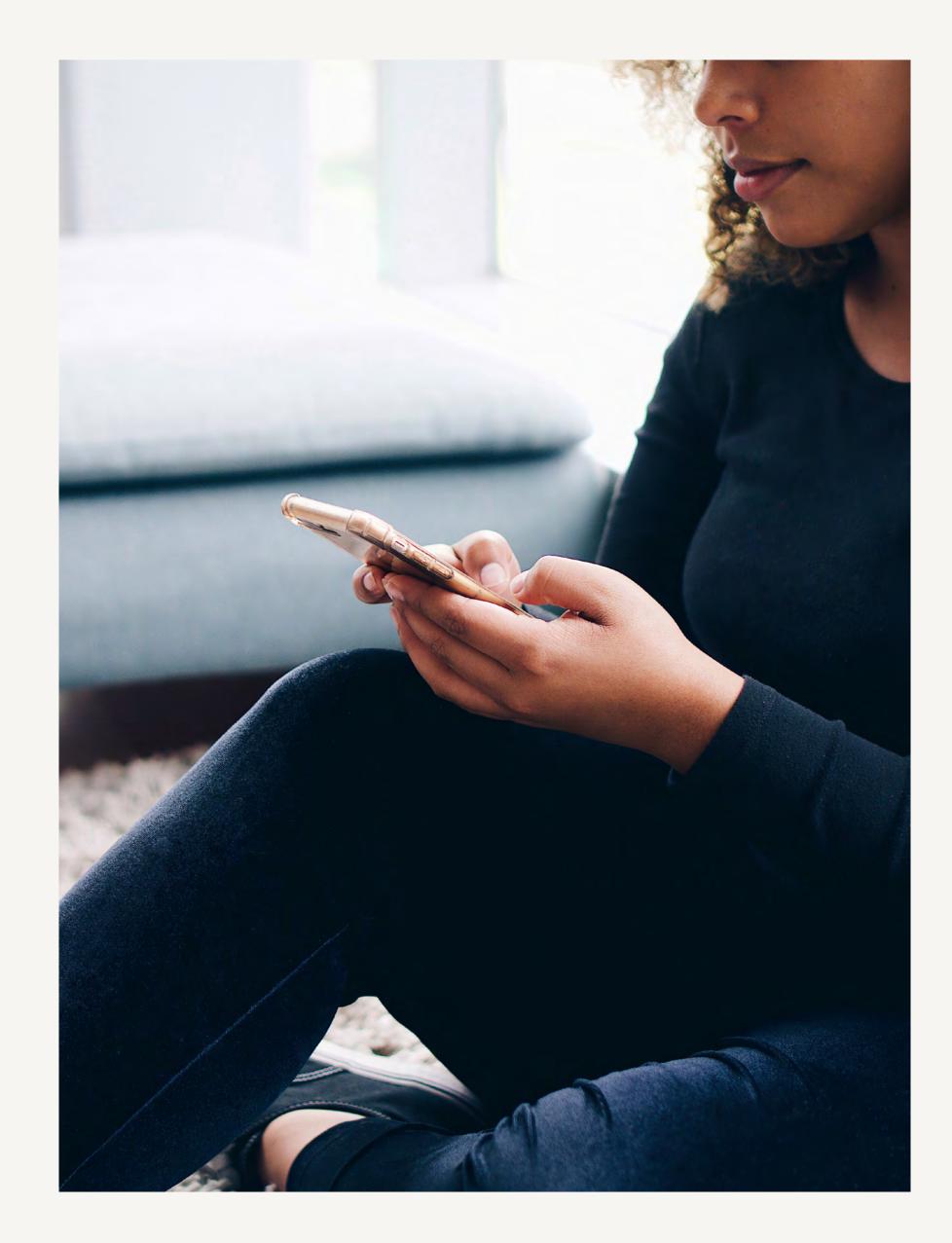
The key technologies impacting sustainable FMCG

As far back as 2017, PWC and Edie carried out work which identified key technologies which are driving change. Many of these will be familiar, and in some cases already in use. Again, the key to success is not in deploying these technologies purely to create sustainability, but in their efficient use to drive business imperatives.

Virtual reality
Internet of Things
3D printing
Augmented reality
Blockchain
Artificial intelligence
Drones
Robots

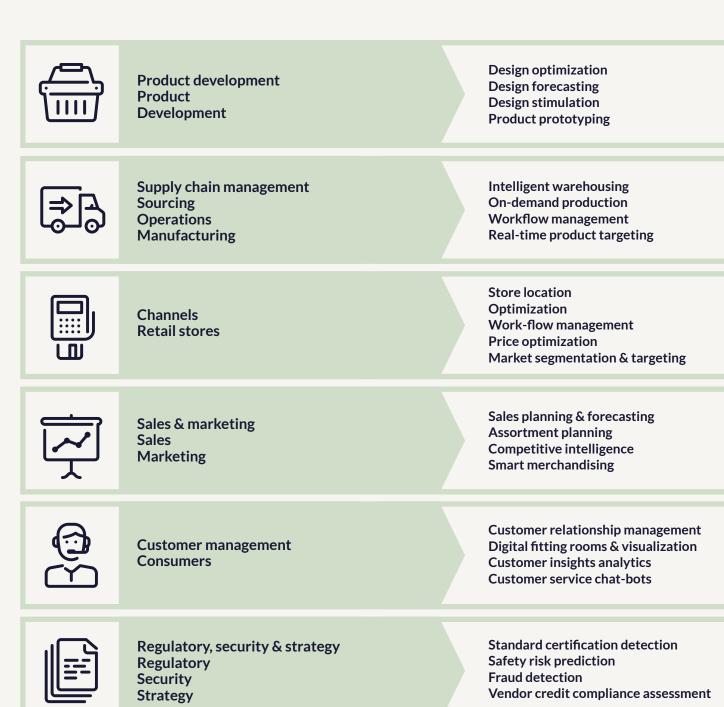**2020 OUTLOOK**

Artificial intelligence (AI)

What is... AI?

The theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages.

The applied use of Artificial Intelligence has so many wide-ranging impacts on the FMCG sector that it is difficult to pinpoint single examples that show effectiveness. As information from Global Data shows, it can affect every point of product lifecycles and logistics, so is best considered as an overarching 'meta-tech', linking other technologies and processes together effectively.

AI IN RETAIL/CONSUMER:
PRIMARY USE CASES BY VALUE CHAIN

	Product development Product Development	Design optimization Design forecasting Design stimulation Product prototyping
	Supply chain management Sourcing Operations Manufacturing	Intelligent warehousing On-demand production Workflow management Real-time product targeting
	Channels Retail stores	Store location Optimization Work-flow management Price optimization Market segmentation & targeting
	Sales & marketing Sales Marketing	Sales planning & forecasting Assortment planning Competitive intelligence Smart merchandising
	Customer management Consumers	Customer relationship management Digital fitting rooms & visualization Customer insights analytics Customer service chat-bots
	Regulatory, security & strategy Regulatory Security Strategy	Standard certification detection Safety risk prediction Fraud detection Vendor credit compliance assessment

Source

Production process and supply chain inefficiencies are both areas that stand to benefit enormously from 'always on' AI optimisation, but their external role in the customer relationship cycle is not to be underestimated. AI, in conjunction with automation, can offer tailored experiences to encourage customer engagement with brands.

This is increasingly important and valuable in a future landscape that shows shifting customer focus towards businesses that are truly committed to sustainability and a loss of existing soft brand power for many generics.

Increasingly, AI offers more efficient and balanced relationships with retailers for FMCG producers, unlocking loyalty data and allowing it to be fed directly back into the product design and production phases.

At the product design stage, AI can assist with everything from conception to reducing packaging. One recent example from Proctor & Gamble saw AI analysing millions of online images to identify ageing characteristics, allowing the group to offer personalised recommendations to customers through the Olay skin brand.

Internet of Things (IoT)

What is... IoT?
The interconnection via the internet of computing devices embedded in everyday objects, enabling them to send and receive data.
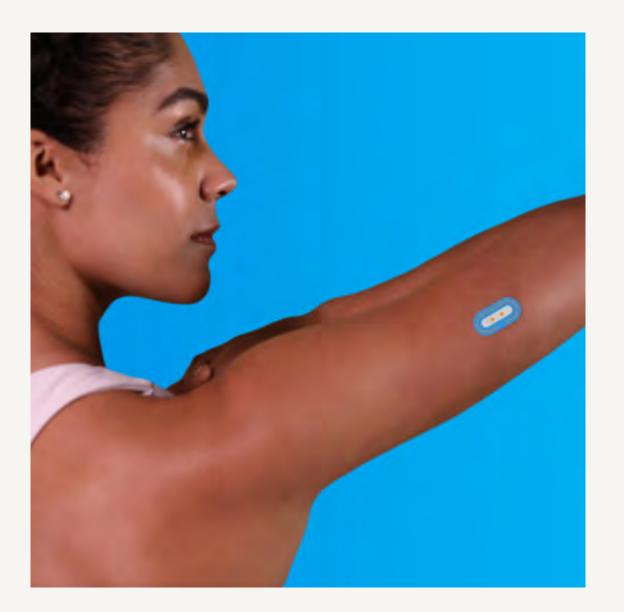
Another overarching technology, the IoT has a multitude of functions and implementations. While the idea of attaching sensors to products, or embedding them in logistics is hardly ground-breaking, the constant and far-reaching connectivity offered by IoT can be viewed as a driver for much larger change, including allowing brands to transform their models entirely to increase their sustainability and resilience.

Beacons are one of the more obvious IoT devices, and have been widely adopted in retail, allowing stores to merchandise more efficiently and provide a better in-store experience by optimising the flow of customer traffic.

For producers however, similar sensors can provide information on how well their products are being displayed or preserved – understanding which stores are showcasing frozen or chilled goods correctly can help tremendously with understanding merchandising effectiveness.

At the more advanced end of this spectrum, L'Oreal has increasingly been experimenting with microfluidic sensors. Allowing customers to monitor their skin's condition and suggest personalised care choices based on this data.

While this allows the company to promote products more efficiently, it is also an early step in transforming the company to become a sustainable 'personalised wellness' partner for customers, and to developing the long-sought 'single customer' view.
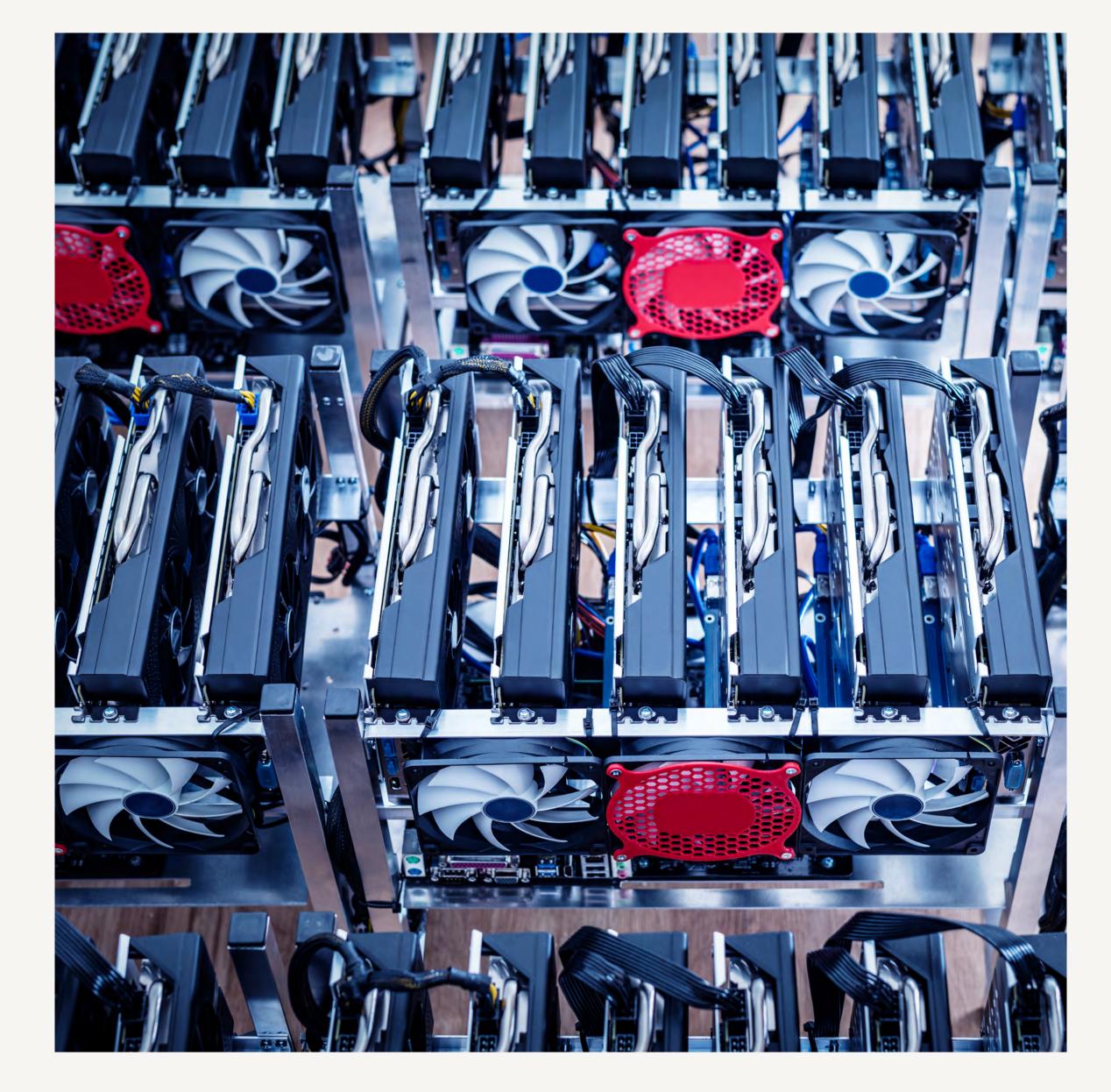
Blockchain

What is... Blockchain?

A blockchain is a growing list of records, called blocks, that are linked using cryptography. Each block contains a cryptographic hash of the previous block, a timestamp, and transaction data.

The idea of distributed ledger technology is reasonably mature, but there has been some hesitation to adopt this in FMCG. The most obvious applications come at the supply chain level, optimising distribution, but the technology also has wide ranging implications for transparency and customer trust.

Food and beverage products are particularly well positioned to benefit here. Blockchain also allows an increased level of security in international supply agreements through smart contacts, and more effective risk management data. increasing security and providing more effective risk management data. In a more obvious way, blockchain also provides endless potential for personalised point-of-sale promotion.

There are challenges of course. As with any data-based system, results are only as good as the input.

Meanwhile, optimising distribution comes with a wider need for operational transformation which needs to be carefully considered to reap maximum benefits.
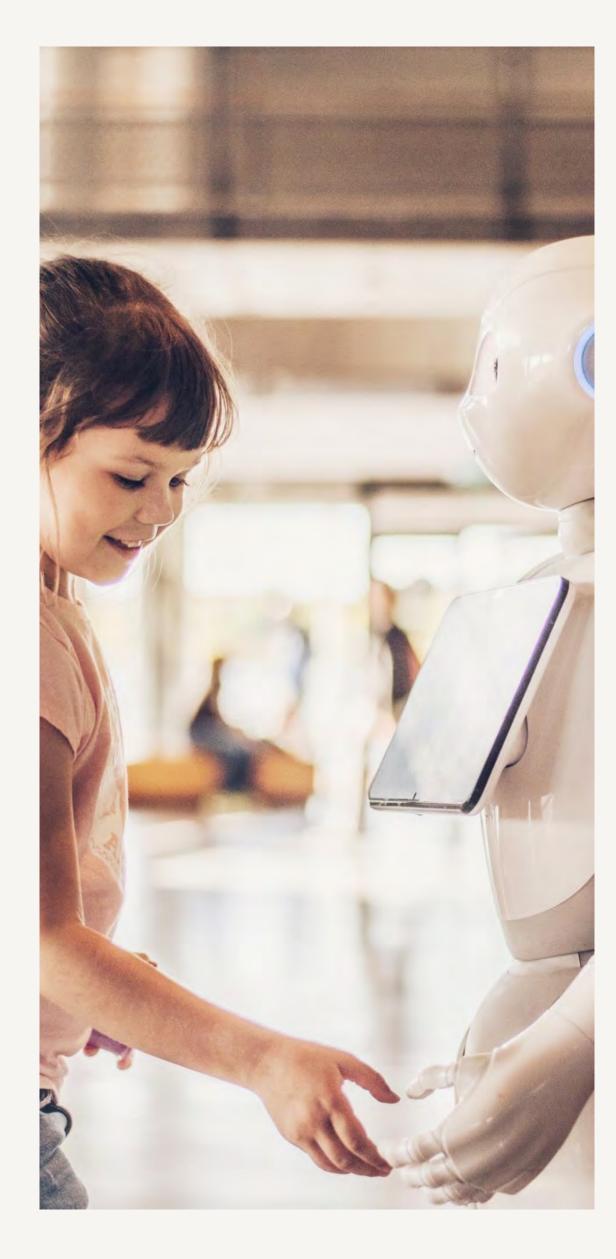
Drones

Automating delivery using unmanned vehicles has been touted for several years at this point, with solutions ranging from rolling robots to the more familiar miniature quad-copters trialled in several parts of the world.

There's no doubt that drones can and do work effectively. In late 2019, Google's 'WING' service began delivering food and FMCG products to household in Virginia, with demand for the service experiencing a surge during the COVID-19 lockdown period.

Amazon has also revealed new iterations of its own drone designs, and filed patents for multi-story localised delivery hubs.

Drones have the advantage of localising supply chains for FMCG, in many cases bypassing complex retail logistics processes. While the do face challenges related to air traffic regulation, they are also catalysing other solutions – Logistics business UPS has recently been investing in 3D printers to localise component supply and creation.

Robots

While there's no doubt that traditional robotics play a large part in manufacturing, FMCG businesses have a lot to gain from their virtual counterparts.

At its most basic, automating simple data-driven tasks saves time and energy. While this may not be the most obviously exciting application of technology, the benefits are huge.

In one recent study, CiGen was able to automate the renaming of its delivery docket files, allowing them to be auto-matched directly to a cloud-based ERP system. For the customer, this provided additional benefits: Real-time delivery status, fast issue resolution and importantly, increasing the speed of remittance for open invoices, a crucial component in improving cashflow predictability.

FMCG FOOD COMPANY AUTOMATES DELIVERY CONFIRMATION IN ERP

Customer: FMCG Food Sector, Australia
Implementation time: 1 week
Process automated:

- Read, extract and rename delivery docket PDF files
- Upload each docket and match against associated sales order in netsuite cloud ERP
- Report any non-matched deliveries

RPA infrastructure: UIPath Platform with Studio Orchestrator, unattended robots

According to Gartner's 'Predicts 2020' report, organisations who are fully adopting Robotic Process Automation (RPA) and combining this with updated operational practices stand to see a 30% drop in operational costs by 2024.

90%
of effort automated

Instant
ROI as process has been sidelined

95%
reduction in processing time
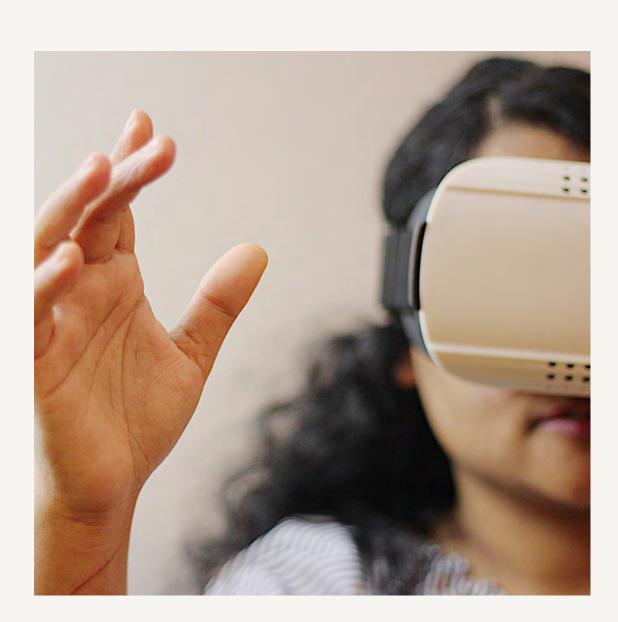
100%
process uptime and completion

Zero
error rate

Up to date delivery status, prompt resolution of non-delivery and faster remittance of open invoices

Virtual and Augmented reality (VR)/AR

FMCG relies heavily on brand interactions but gaining cut-through in crowded markets can be particularly hard, so it's no surprise to see Virtual and Augmented experiences being used to help drive more immersive and unique in-store and online experiences for customers.

One of the most interesting recent examples saw Gilette offering virtual 'roller coaster' rides to customers, allowing them to test just how smooth a new razer really was while enjoying virtual loop-the-loops.
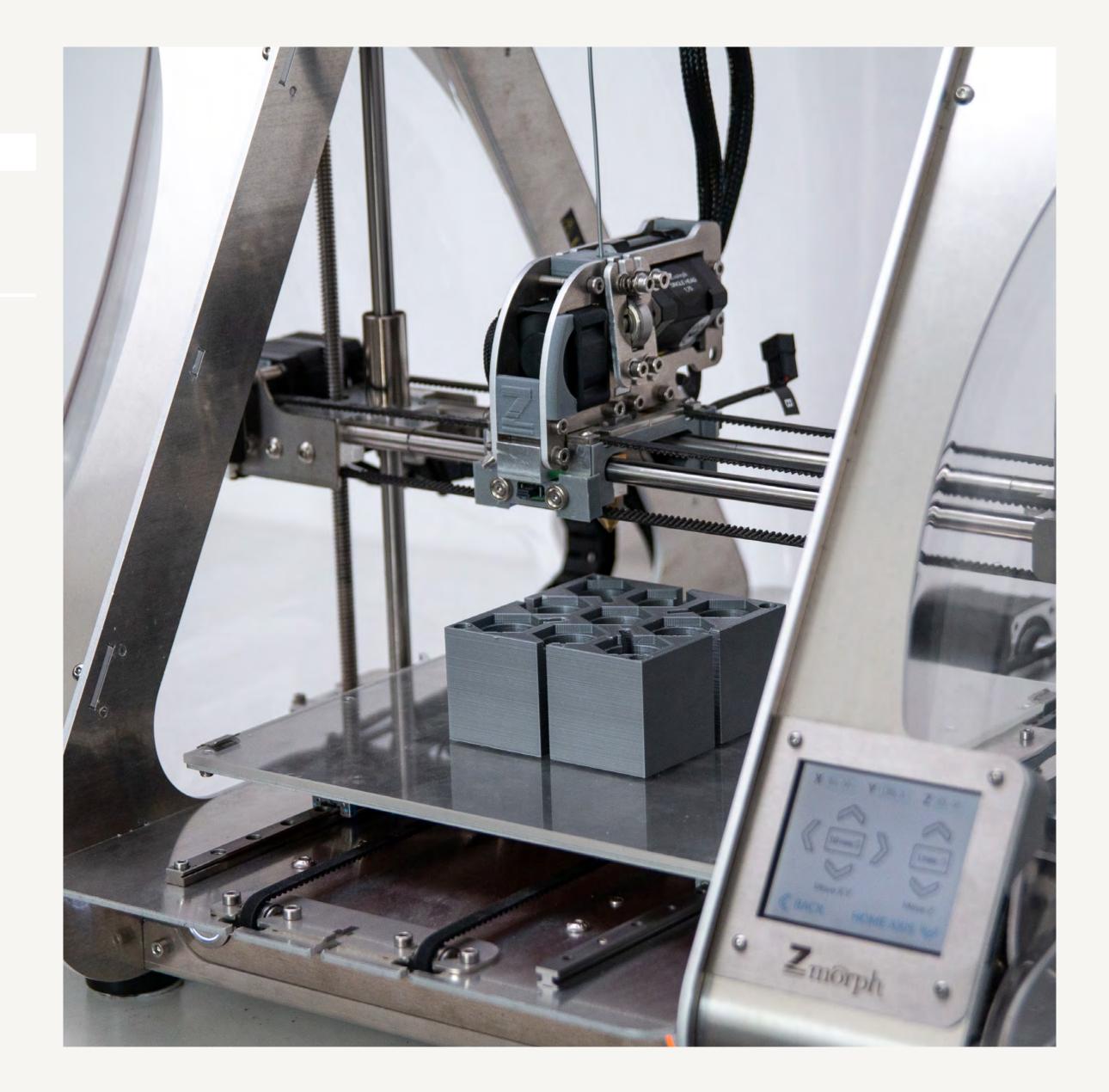
3D printing

What is... 3D printing?

The action or process of making a physical object from a three-dimensional digital model, typically by laying down many thin layers of a material in succession.

As we mentioned Earlier, the decision by UPS to incorporate 3D print into logistics has fascinating ramifications for FMCG, and while initial focus has been on industrial components, there are clear and immediate applications for Shopping Products.

The service allows components to be produced efficiently and has the potential to massively reduce shipping requirements while driving extended lifecycles and dematerialisation for new products.

3D printing also offers an additional, highly marketable bonus: customisation available at scale for customers, allowing upsell for previously standardised products.

Sustainability is driven by people

This focus on technology is expected, and indeed sensible and again harks back to the formative days of digital. However, one lesson learned from that experience is that technology alone cannot drive change.

People, skills and management styles are at the crux of transformation. All businesses need to supply workers with the skills to use new technology properly in order to gain real value from that technology, but it is also important that the users have a bigger-picture view of the value these new processes are bringing – both to the company, and directly to them as an individual.

Sustainability projects are symbiotic. As we've already mentioned, the impact they create are felt across a business, in multiple dimensions. They will affect economic, social and environmental outputs.

Different people within the business will feel and respond to these impacts in different ways, and while it is easy to talk about 'taking people on the journey' when rolling out new processes, anyone involved in a company will know that change is often hard-fought and herder won.

To coin a phrase, sustainability isn't necessarily difficult, but it is hard. It requires determination and resilience to implement or adapt to an ongoing process.

On a positive note, the business case for embracing adaptability is already well known. In 2019, Forrester found that 'highly adaptable' enterprises were growing at three times the speed of their less flexible competitors.

In human terms, sustainable projects can be seen to have three points which must be considered at the outset.

Cognitive
New ideas need to be introduced and framed in a way that shows them to be obviously beneficial, but also highly attainable. Projects should take small steps which allow staff to see how change affects them directly. This could be tied to financial incentives; for example, reduced costs positively impacting bonuses, or a focus on travel allowing flexible or remote working, which can positively affect overall job satisfaction.

Cultural
Being convinced that becoming more sustainable is "the right thing to do" (both for the business and for the wider world) is only the beginning of the sustainability journey. To be equipped for change, businesses require flatter and more transparent internal structures. Reducing hierarchy and the number of reporting lines allows greater visibility of how a single employees role fits within the wider structure, creating greater purpose and an individual sense of responsibility and progress.
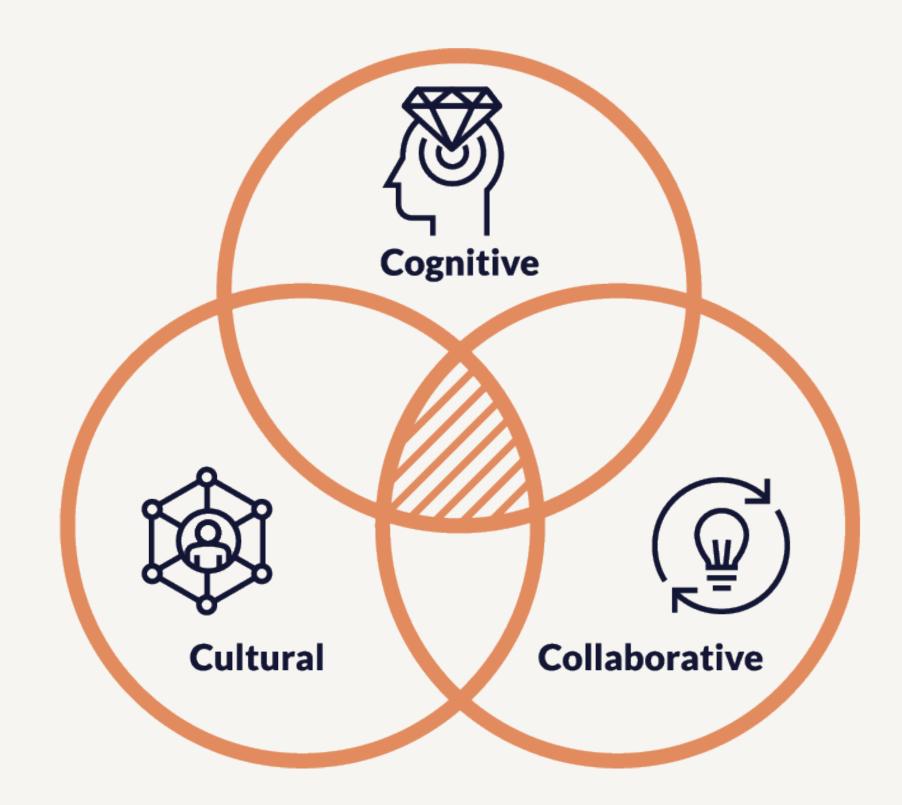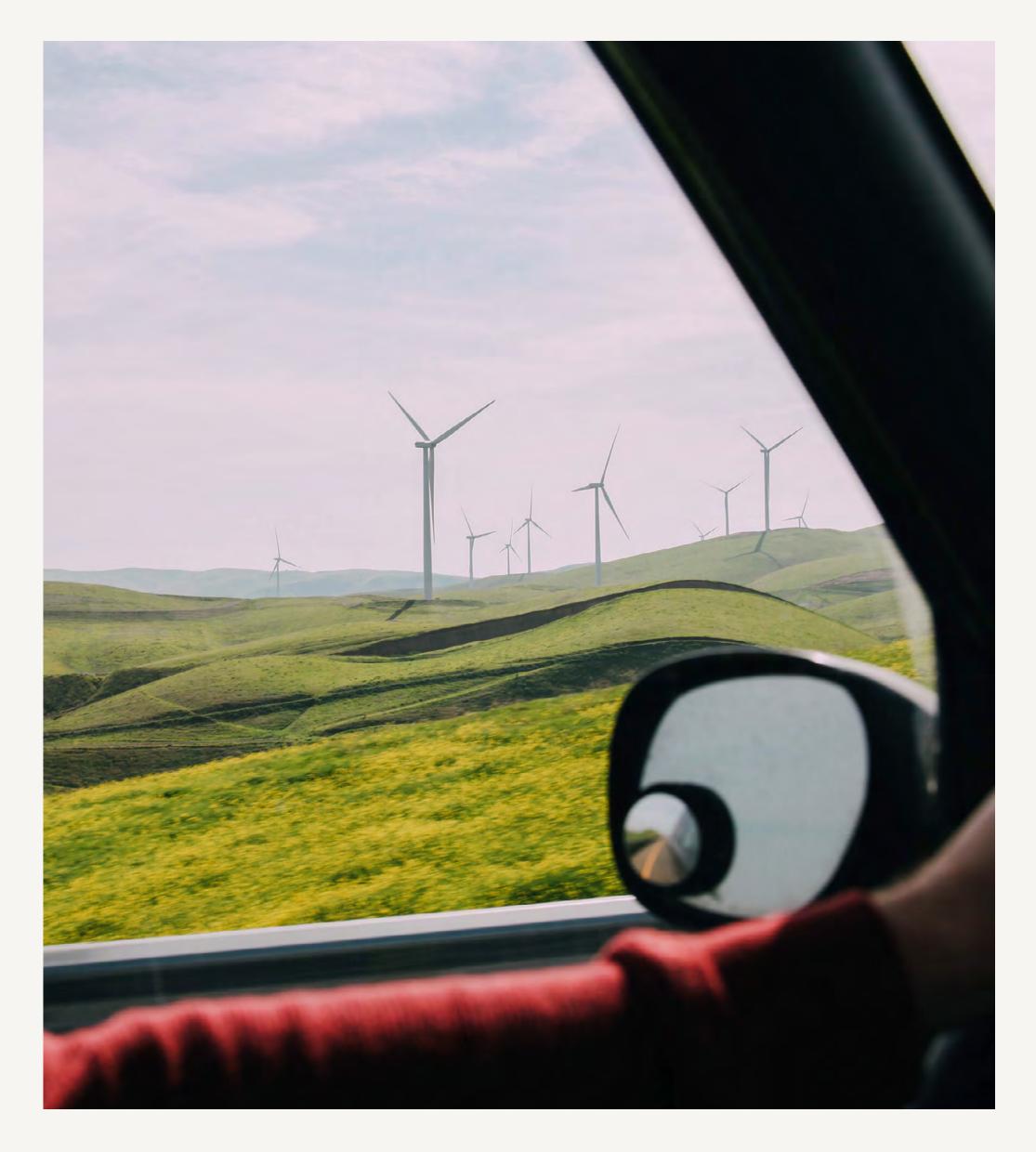
Collaborative
Collaboration is often taken to mean more responsive inter-departmental relationships and incorporating sustainability will certainly create broader roles and a greater degree of overlap as new projects and priorities become apparent. There is a clear requirement to handle these with sensitivity. A robust HR structure may be required to ensure people do not feel they are being 'edged out', or that their responsibility has been diminished. In addition, success may require new roles and entirely different team structures and internal processes.

While sustainability needs to be led from the top, senior managers and C-Suite need to be conscious of this being a collaborative effort at every level.

Earlier in this report we spoke about the various applications of data in sustainability. If data is improperly entered, then overall results will suffer. To ensure success, management must help encourage and motivate staff who are responsible for this.

In the past data entry was sometimes seen as a somewhat menial task, or one that was under threat from automation, but this is a crucial part of any modern, sustainable enterprise, and should be given appropriate consideration and attention. This is just one small example of the greater change needed.

What stops businesses being sustainable?

Historically speaking, businesses have not needed to be sustainable. The assumption of endless resources have given rise to a linear approach to use and disposal of waste.

In the past, this has been the 'easy' way to do business. Unfortunately, businesses that continue to follow the unchanging, 'easy' model are not equipped to make smart decisions and implement change at speed.

Ultimately, ploughing the same furrow leads to diminished results, typically seeing companies doubling down on failing processes in attempt to shore up their bottom line. This leads to poorer customer experiences and increases risk for the businesses involved.

Sustainability should be viewed as the opportunity it is. In our case studies section, we'll illustrate how different types of FMCG companies have implemented sustainable practices and benefited from these, both financially and culturally.

Carlsberg

Together Towards ZERO

COMPANY STATS:
Founded: 1847
Locations: Copenhagen, Denmark
Employees: 41,000
Revenues (2019): $9,879 million

Image courtesy of Carlsberg

Carsberg is a Danish brewer, operating in Western Europe, Eastern Europe and Asia. It's portfolio includes multiple beer and cider brands, including Carlsberg, Kronenbourg, Somersby, Holsten, and Tuborg.

The company has been working on various sustainability projects over the past decade or more, under the leadership of a CSR team, before appointing a Director of Sustainability in 2015 to head up initiatives such as its Together Towards ZERO sustainability programme.

The same team has worked on many of Carlsberg's sustainability initiatives, starting with the Carlsberg Circular Community in 2014 and now with its Together Towards ZERO, which began in 2017 and continues to this day.

Objectives and targets of Together Towards ZERO

The Carlsberg Together Towards ZERO project was built on the foundations of its previous Circular Community, which aimed to:

- Reduce weight or change to packaging with a lower environmental impact.
- Increase reuse of packaging materials, with a focus on glass bottles.
- Encourage consumers to recycle packaging and to increase the amount of recycled material used in packaging.
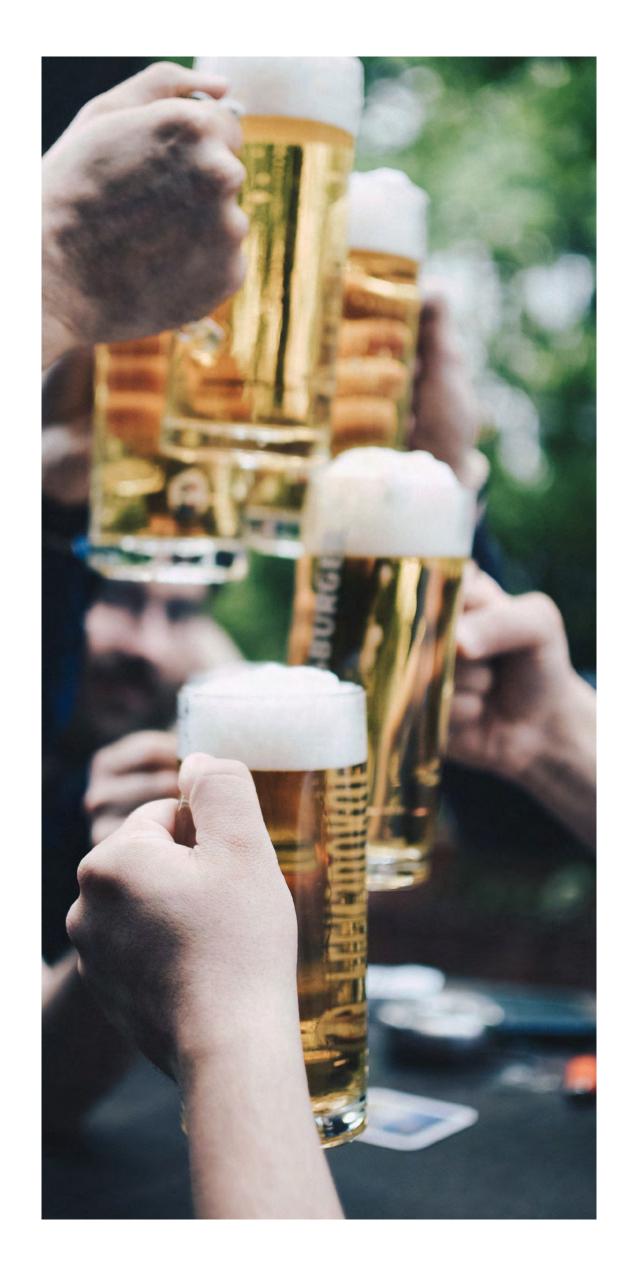- Rethink packaging and waste, by using recycled packaging materials in other products.

Building this circular model required the help of various partners to help it achieve its goals. For example, Carlsberg worked with Tesco Polska, the Eurocash Group, KOBA Recovery and the Our Earth Foundation to create awareness of recycling, collecting 47 tonnes of glass in 2014.

By 2017 it had added 17 partners to the Carlsberg Circular Community, achieved three Cradle-to-Cradle® product certifications, a programme which recognises product design and manufacturing processes which are sustainable.

It had also reduced energy consumption by 8%, water consumption by 7% and CO_2 emissions were down by 19% as a result of its efforts.

From 2017, Carlsberg launched the Together Towards ZERO programme, with a series of ambitious targets to be achieved by 2022 for some, and 2030 for others.

The Together Towards ZERO has four major aims:

- **ZERO carbon footprint**
  Carlsberg aims to eliminate carbon emissions from its breweries by 2030 and to be using 100% renewable electricity by 2022. It also aims to reduce 'beer-in-hand' emissions by 30% by 2030. This last target covers the whole lifecycle of its products.

- **ZERO water waste**
  The target is to cut water usage at breweries in half by 2030, as well as improving water management outside breweries in high-risk areas.

- **ZERO irresponsible drinking**
  Looking at the wider societal impact of its business, Carlsberg aimed to offer 100% distribution of alcohol-free drinks by 2022, as well as provide information on responsible drinking, and to form partnerships to encourage responsible consumption.

- **ZERO accidents culture**
  A year-on-year reduction in the accident rate to achieve the 2030 target of zero lost-time accidents.

The goals are designed to tie in with the UN's Sustainable Development Goals (SDGs) which are a call for governments, the public and businesses to tackle major global issues of inequality, poverty and climate change.

Carlsberg's aims reflect the areas where it can have an impact, so the targets around reducing carbon emissions and using renewable energy address the UN's SDG 7 - affordable and clean energy, as well as climate action (SDG 13).

Likewise,the focus on cutting water waste and improving water management fits around the UN's SDG 7, to improve clean water and sanitation.

Organisational and value chain challenges

One of the initial challenges for Carlsberg was to introduce the concept of circularity into an already established value chain, and to 'decouple growth from impact'.

This means that the circular model had to be introduced into the way breweries are run, as well as the wider value chain.

Implementing such improvements is not straightforward and as Carlsbergs Sustainability Report states, 'requires the coordination and cooperation of multiple stakeholders'.

According to Simon Boas Hoffmeyer from Carlsberg's Sustainability team, it was important that the company's goals were understood by all, not just within specific teams:

"From the beginning, our viewpoint was that we shouldn't be a big central function, but we should ensure that sustainability gets integrated into the business frame and the way we do that is to ensure that the business has the right people in place to work on the major impacts that would create the best benefits for the company.

It is more important to have someone working on increasing the return rates of our refillable glass bottles who is a logistics expert, rather than having someone working on that from within the sustainability team."

Partnerships and cooperation with people and other businesses is vital for success too. For example, building a circular model across the value chain requires engagement with customers to ensure that packaging remains in the loop, rather than ending up as landfill or litter.

Carlsberg has been active in promoting recycling with consumers, for example by using music festivals to spread its message. So, at the Roskilde festival in 2019, Carlsberg replaced more than 1 million single use plastic cups with sustainable cups that can be used up to 25 times.

Partnerships were central to the Carlsberg Circular Community (CCC) initiative, and this has continued through to the Together Towards ZERO programme.

To increase efficiency and reduce waste in the value chain, Carlsberg has needed cooperation of the various stakeholders along the way in a number of projects designed to help Carlsberg meet these goals.

Creating sustainable packaging

It has also required the expertise of partner businesses to help it achieve its goals. One such example is its partnerships to help reduce packaging waste, such as that with independent company Paboco.

The aim is to produce the world's first 100% bio based 'paper' beer bottle, which is made from sustainably sourced wood fibres, and contains no polymers. This project has now been joined by other global companies including Coca-Cola, The Absolut Company and L'Oréal.

"Radical innovation like this is only possible when experts from across the value chain come together to find sustainable solutions."

Gittan Schiöld, Interim CEO, Paboco

Reducing water usage

Another example is the partnership with DRIP (the Danish partnership for Resource and water-efficient Industrial food Production) at Carlsberg's Fredericia brewery, with the aim of making it the first brewery to virtually eliminate water waste.

The project has involved universities and technology providers, as well as Danish veterinary, environment and food authorities, ensuring that the project meets Denmark's high food and environment standards.

The total water recycling plant in the brewery will reuse 90% of process wastewater, and will reduce energy consumption by 10% through biogas production and the recirculation of hot water.

As Carlsberg Group CEO Cees 't Hart states in the 2019 Sustainability Report:

"The success of our business is bound up with our partners, our consumers and the natural world on which we all depend. Nobody can solve the challenges the world faces alone. By working in partnerships, we are able to make faster progress and deliver change that would otherwise not be possible."

Impact and results

The thinking behind Carlserg's adoption of a circular model is that the only long term and sustainable answer to waste is to ensure that resources and products are designed and used in continuous loops.

According to the company: "Waste should not exist. Resources and products should be viewed and used as high-quality materials optimised for reuse and recycling."

Adopting a circular model, and addressing sustainability on this scale brings a number of key benefits for the general public and the climate, but also helps Carlsberg in a number of ways. These include:

● **Long-term growth**
Investing in sustainable practices now increases efficiency in the longer term, but also ensures that the business will retain its appeal to environmentally conscious consumers, and will insure it against possible future regulatory costs around environmental impact.

● **Profits**
In 2019, Carlsberg reported record payouts to shareholders and a 10.5% growth in profits. Making the value chain more sustainable can also deliver efficiency savings and underpin future growth.

● **Employee satisfaction**
According to the 2019 Sustainability Report, 90% of Carlsberg employees believe they work for a socially and environmentally responsible company. Studies have identified links between a company's attitude to CSR and employee happiness and engagement. In short, people feel happier working for companies they feel add benefit and value to the wider world. This can pay off in terms of attracting and retaining the best employees.

Carlsberg also recognised that reducing the company's CO2 footprint can also be translated into cost savings. So by reducing the amount of material used to make a piece of packaging or to ensure that more packaging is recycled, there are environmental and economic impacts.

It benefits the company's bottom line as well as the environment.

Together Towards ZERO is an ongoing programme, but it has already made progress towards a number of its goals.

ZERO carbon footprint

- Carlsberg reduced relative carbon emissions by 13%, from 5.6 kg CO_2/hl in 2018 to 4.9 kg CO_2/hl in 2019. This is a reduction of 30% since 2015.

- Absolute emissions were reduced by 9%, from 704 kt in 2018 to 638 kt in 2019. This was achieved through energy efficiency programmes, fuel conversions and using more electricity from renewable sources.

- Coal usage was reduced by 11% compared with 2018 (an 89% reduction by weight from 2015).

- In 2019, 56% of total electricity consumption came from renewable sources, a 10% increase since 2018.

- Washed and reused 5.3 billion returnable glass bottles and introduced the Snap Pack, a glue solution which reduces plastic usage by up to 76%.

ZERO water waste

- Water efficiency improved by 3%, in 2019 (a 12% improvement from 2015).

- Water usage in India decreased by 9%, achieved by increasing the usage of recycled water for cleaning at four breweries.

- In Denmark, Carlsberg invested in a wastewater treatment plant that will recycle 90% of processed water and cut water usage for brewing from 2.9 hl/hl to 1.4 hl/hl while reducing carbon emissions by 10%.

ZERO irresponsible drinking

- In 2019, volumes of AFBs (alcohol free beers) grew by 7%, with our brands now available in more than 60 markets.

- Carlsberg's portfolio of AFBs is growing, with more than 30 variants available across the Group.

ZERO accidents culture

- The lost-time accident rate (LTAR) fell from 4.3 in 2018 to 3.7 in 2019.

- Employee lost-time accidents (LTAs) fell from 169 in 2018 to 146 in 2019.

Beyond these specific goals, Carlsberg reported 3.2% growth in revenue and a 10.5% increase in operating profit, showing that sustainability goals can be achieved alongside business growth.
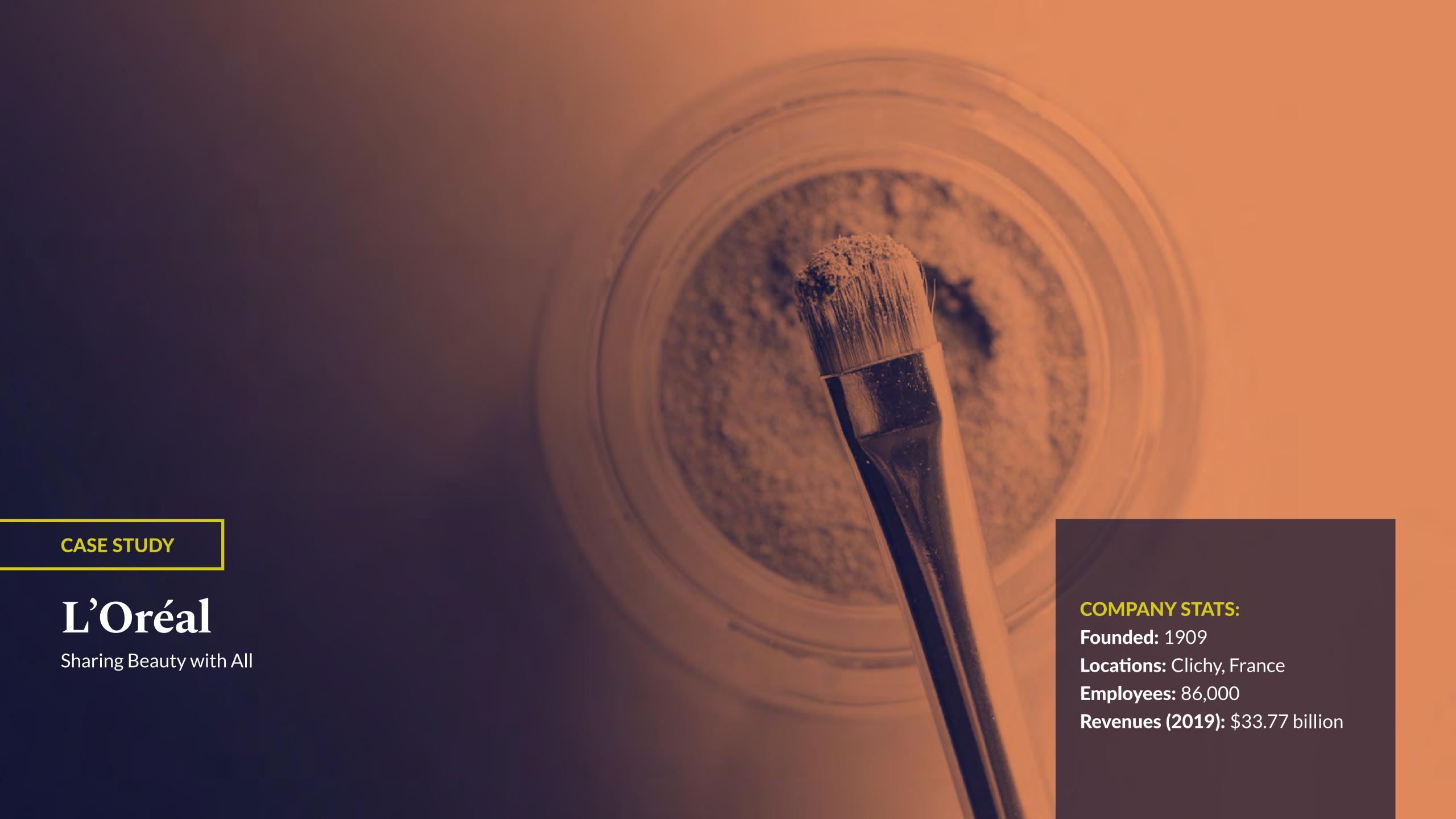
This underlines the key reasons behind the drive towards a circular, sustainable model - that it will strengthen the business in the long term.

A more sustainable value chain delivers cost savings, but also improves brand perception, and contributes to employee engagement and satisfaction.

To make progress towards its goals, Carlsberg has needed the cooperation of stakeholders all along the value chain - employees, suppliers, partners and ultimately the consumer.

Key Takeaways

- Sustainability is a long-term investment. The drive to a circular model, and to increase sustainability throughout the value chain isn't achieved overnight. Carlsberg's current Together Towards ZERO programme will have lasted 13 years by the time the 2030 deadline for its goals arrive, and its work on sustainability began long before that.

- Engaging key stakeholders is vital. For long-term projects which fundamentally transform the way companies operate, like Carlsberg's Together Towards ZERO, it's vital that everyone is on board to ensure success and continuity.

- The importance of partnerships. Even for a large company like Carlsberg, the expertise required cannot always be found within the organisation. It has been necessary to find outside help for various projects - the technology required to create sustainable packing for example, or to reduce water usage.

- The need for cooperation along the value chain. You need the cooperation and expertise of everyone involved such as partnerships with retailers and engaging consumers to encourage the recycling of packaging.

- Sustainability needs to be linked to long-term growth. Carlsberg has been able to make a business case for its move to a circular model, so its sustainability projects go hand in hand with growth.

L'Oréal

Sharing Beauty with All

COMPANY STATS:
Founded: 1909
Locations: Clichy, France
Employees: 86,000
Revenues (2019): $33.77 billion

Images courtesy of L'Oréal

L'Oréal is the world's largest cosmetics company, headquartered in Clichy, France. It sells hair dyes, skin care and sun protection products, as well as make-up and perfumes.

The company has been increasingly focused on sustainability over the past decade, and topped Newsweek's Green Ranking in 2017 as the best performing global brand in terms of sustainability.

Since 2013, it has been working on its Sharing Beauty with All (SBWA) global sustainability programme, and has set a range of objectives for 2020. These objectives involve reducing its environmental footprint and increasing positive social impact, as well as achieving a transformation of its operations and manufacturing.
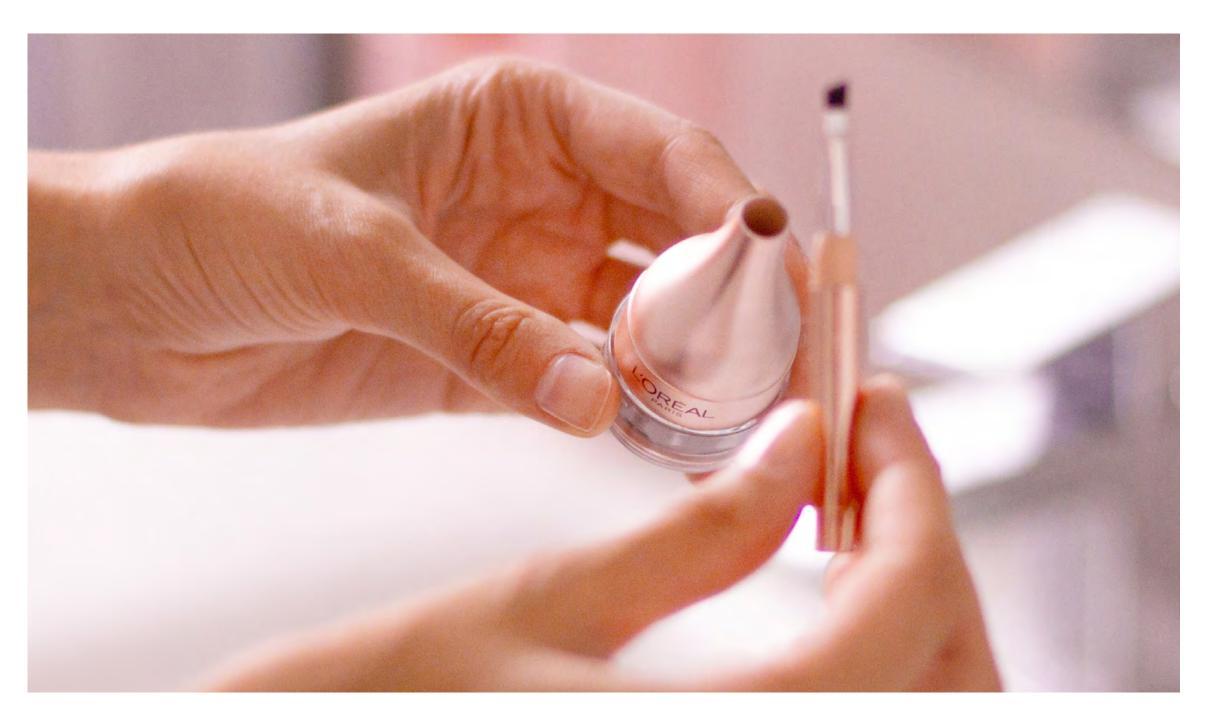
Objectives and targets of Sharing Beauty with All

In 2013, L'Oréal began a re-evaluation of its whole value chain, with the aim of transitioning to a more sustainable business model.

According to Chairman and CEO Jean-Paul Agon: "With Sharing Beauty With All, our aim was to collectively reinvent the way in which we run our business – with an ambitious strategy and goals spanning the entire value chain. Product sustainability is now just as fundamental a criterion as quality and profitability. […] We remain faithful to this ambition – L'Oréal strives to be and must be exemplary. We must always do better, and more rapidly, given the tremendous pace of the current global turmoil. L'Oréal's sustainable revolution marks the dawn of a new era."

L'Oréal's sustainability drive has gone hand in hand with its digital transformation, it's adoption of ecommerce being a prime example of this. The company's income from online channels grew by more than 40% in 2018, and now accounts for 11% of the group's total income.

Producing sustainably

- L'Oréal aims to reduce CO2 emissions from plants and distribution centres by 60%, compared to 2005.

- To cut CO2 emissions caused by transport of its products by 20% ,compared to 2011.

- Lower water consumption by 60% per finished product, compared to 2005.

- Reduce waste generation by 60%.

- To send no industrial waste to landfill sites.

Living sustainably

- L'Oréal will use an assessment tool to evaluate the environmental and social profile of its products, and make this information publicly available.

- All L'Oréal brands are to measure their social and environmental impact and make commitments to improve it.

- Each brand will report on its sustainability progress and increase consumer awareness of its commitments.

- A consumer advisory committee will allow customers to comment on and influence L'Oréal's sustainability efforts.

Developing sustainably

- By 2020, L'Oréal aims to help more than 100,000 people from underprivileged communities to find employment through three programmes:

- Solidarity Sourcing programme.
- Vocational training in the beauty sector.
- Equal opportunities for people with disabilities.

- The company will assess and select strategic suppliers based on environmental and social performance.

- To support suppliers to assess their own sustainability policies.

- To provide suppliers with access to L'Oréal training tools to improve their sustainability policies.

- 20% of strategic suppliers will support the Solidarity Sourcing programme.

- Employee health cover will be based on best practice in their country of residence.

- Financial protection for employees in the event of a life-changing accident.

- At least one training session per year for every employee around the world.

It's Sharing Beauty With All initiative is an ambitious plan, launched in 2013, with targets aiming to contribute to 15 of the 17 UN Sustainable Development Goals.

The targets, set to be achieved by 2020, are split into four main areas, Innovating sustainably, Producing sustainably, Living sustainably and Developing sustainably.

Innovating sustainably

The main goal of the first, Innovating sustainably, is that all L'Oréal products will have an improved environmental or social profile.

L'Oréal has pledged that each new or revamped product will fit one of the following criteria:

- It reduces the product's environmental footprint.

- The new formula uses renewable raw materials that are sustainably sourced.

- The product has a positive social impact.

- The new packaging is more environmentally friendly.

Organisational and value chain challenges

L'Oréal recognised that, in order to become a more sustainable company, significant changes were going to be needed throughout its value chain.

It has required a transformation of the way the company operates with its suppliers, partners, and employees, and has been accompanied by digital transformation, with a drive to become a digital first company.

This was overseen by Alexandra Palt, Chief Corporate Responsibility Officer, Executive Vice President of the L'Oréal Foundation, who was appointed to the role in 2012.

Radical change at such a large organisation isn't straightforward, and requires the cooperation of all stakeholders and employees.
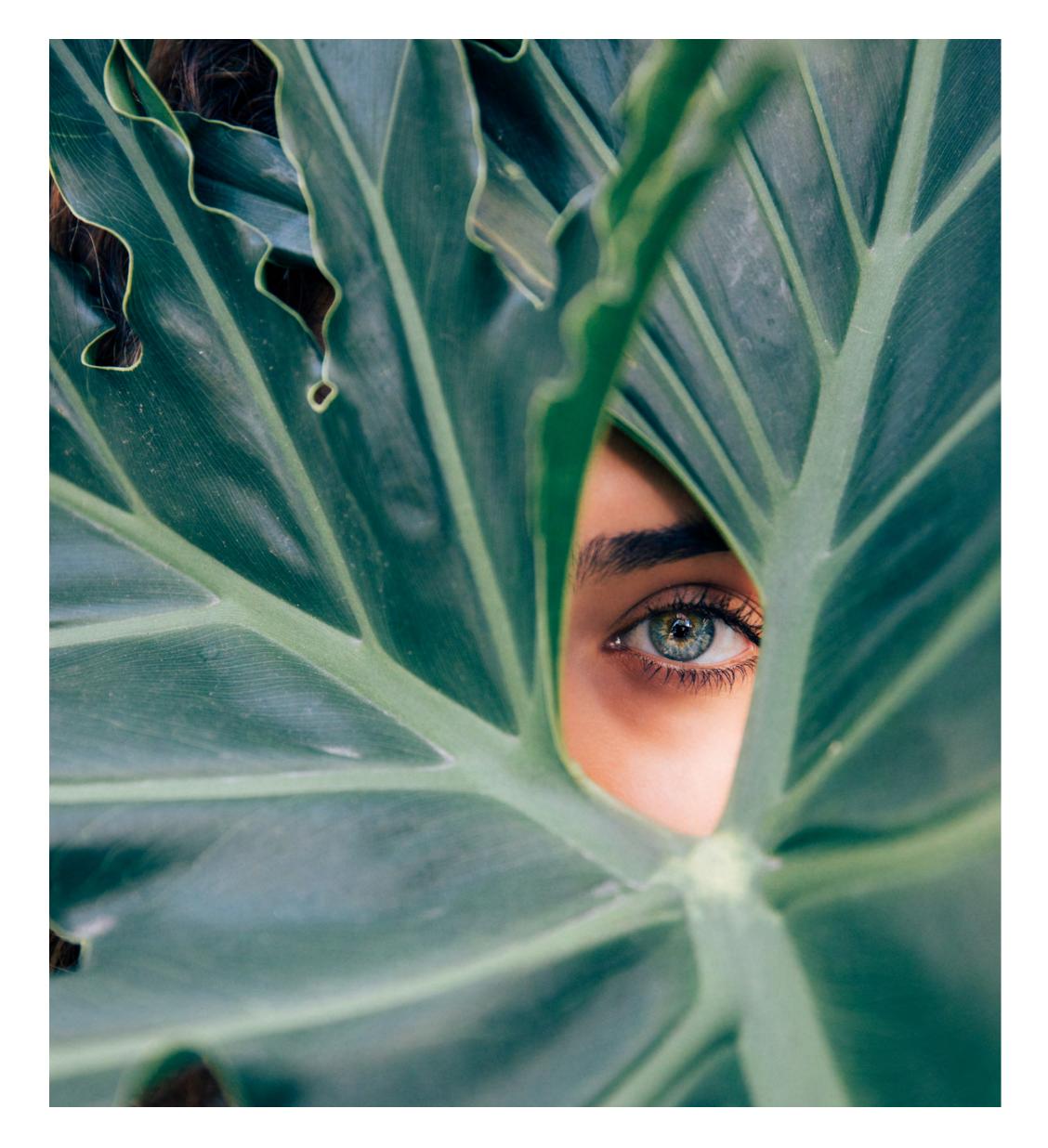
One step L'Oréal took to achieve this was to link performance bonuses to environmental targets.

The performance of L'Oréal's brand managers has been rated against the company's three main SBWA targets - increasing the number of environmentally friendly products, integrating sustainability into customer interactions, and improving the contribution of the brand to its environmental and social goals.

For country managers, bonuses are evaluated based on how well the company has shared growth with commutes and employees in each country.

It's a simple concept - changes that are measured and incentivized are more likely to happen. Employees see not only the wider benefits of the company's sustainability initiatives, but also directly benefit themselves.

L'Oréal also faced a challenge passing on the message to all employees, through regular training and workshops, so that they understand the contribution they can make to the sustainability drive, a process that is achieved not just by big initiatives, but by lots of slow, incremental steps.

The importance of digital transformation

In the company's drive towards a more sustainable business model, digital transformation has played a key part. This can happen in a number of ways. For example, digital products and channels can be vital in helping L'Oréal achieve its goals - using digital channels to convey its message to its customers for example - but also by making the company's business model more sustainable.

In a world where customers are moving online at a rapid pace, the long term health of L'Oréal's business depends on using digital effectively - after all, sustainable goals can only be met if the business as a whole is sustainable.

Lubomira Rochet has been Chief Digital Officer at L'Oréal since 2014,and has overseen the company's drive to become a 'digital-first' company. According to Rochet:

"The strategy is really to pivot towards being a digital-first business. There are different pillars around that, and the first big thing for us has been about embracing ecommerce. As a business we have one obsession which is to be consumer-centric, we want to really understand where consumers are shopping, their shopping behaviour and be where they are."

One important strand of this digital transformation is the company's adoption of technology such as AR, AI and the Internet of Things to increase engagement with consumers wherever they are, whether this is on L'Oréal's own websites, its partners' sites or social platforms.

For example, L'Oréal acquired beauty tech startup Modiface In 2018, an app which allows users to test beauty products virtually using their smartphone cameras. This can be used on platforms like Facebook or can be embedded into websites or apps.

Rochet told the Drum that L'Oréal is seeing some excellent engagement with the app, as well as seven times the revenue from sites where this tech has been deployed.

Other tech introduced by L'Oréal includes the Kérastase Hair Coach, a smart hairbrush which can measure and track the health of the customer's hair via a connected app

L'Oréal's My Skin Track pH is another great example - a wearable skin sensor with a connected app, which allows customers to measure their own skin pH levels.

As with L'Oréal's other beauty tech initiatives, it helps to solve customers' problems, as well as driving the use of the company's products. So in this case, it creates a customized product regime to provide better skin care for customers and reduce skin irritation.

These beauty tech products also allow L'Oréal to access valuable customer data, learning more about their beauty habits and routines. Crucially though, there's a value exchange and the customer is willing to share data as it directly benefits them. In a post-GDPR age, this value exchange is key to building relationships with customers.

It also marks L'Oréal's transformation from being simply a brand selling beauty products to more of an all-round personal wellness brand. It's this that drives engagement with customers on digital channels and makes the business more sustainable.

Another key aspect of this transformation has been changing the way the company worked, and decentralising. Rochet:

"The deepest part of the digital transformation is de-siloing the organisation and having people come together as a team in a project mode versus a very sequential, 'this is the innovation, this is the marketing plan, this is the go-to-market strategy and this is the operation and execution plan'. This becomes a very holistic approach to consumer experience versus doing just a product strategy."

Recent events have accelerated the company's shift to digital, with Covid-19 rapidly shifting customer behavior, with even older demographics moving online.

According to Lubomira Rochet, the crisis has 'profoundly accelerated the digital transformation of the beauty sector'.

While this shift to online was forced by the closure of physical stores, it's likely that this change in customer behaviour will be permanent.

Impact and results

L'Oréal has been producing regular updates on its progress towards sustainability through its annual progress reports. Based on the 2019 report, this is where the company is in relation to its Sharing Beauty with All programme.

Innovating sustainably

- 85% of all new or revamped products have an improved environmental or social profile.

- 46% of all new or revamped products have a smaller environmental footprint.

- 59% of products now use a new formula which incorporates renewable raw materials.

- 40% of products have an improved social profilem using materials from Solidarity Sourcing Programmes.

- 67% now use packaging with a lower environmental footprint.

Producing sustainably

- 70% reduction in CO2 emissions from plants and distribution centres since 2005.

- 12% reduction in CO2 related to the transport of products.

- 51% reduction in use of water from plants and distribution centres.

- 35% reduction in waste from plants and distribution centres.

- L'Oréal has sent zero waste to landfill sites since 2018.

Living sustainably

- 100% of new or revamped products in 2019 were assessed for environmental and social impact.

- 89% of L'Oréal brands have assessed their products.

- 57% of brands have carried our consumer awareness initiative.

Developing sustainably

- 90,635 people from underprivileged communities gained access to employment.

- 70,912 people gained work through the Solidarity Sourcing programme.

- 18,443 people from highly disadvantaged backgrounds took part in free vocational training in the beauty sector.

- 1,280 people with disabilities work for L'Oréal.

- 87% of strategic suppliers have been assessed and selected based on environmental and social performance.

- 94% of the Group's permanent employees benefit from health cover that reflects best practice in their country of residence.

- In terms of L'Oreal's digital transformation, it has made great strides in terms of generating income and growing its presence online.

- 13.5% of the group's income now comes from online sales, with growth of more than 45% from 2018 to 2019.

- L'Oréal has 1.2bn visits per year to its website, and more than 280m followers on social platforms.

- It has now moved 43% of its total media spend into digital.

- In 2019, L'Oréal reported sales of €29.87bn and operating profits of €5.54bn.

- It achieved its highest growth for a decade (8%) and a record operating margin (18.6%).

- Ecommerce has accounted for a higher percentage of total sales over the last six years, reaching 20% in Q1 2020.

Key Takeaways

- Sustainability is a long-term investment. The current Sharing Beauty with All programme started six years ago, and was preceded by other sustainability initiatives. Transformation on this scale requires a long-term commitment.

- Digital transformation is key to long-term sustainability. For L'Oréal, the drive towards sustainability also included a commitment to become a digital-first brand. In an online world, it's important to be where your customers are, and to use digital channels and tech effectively.

- Stakeholders and employees need to be involved. For an effective move to a sustainable model, and for wide-ranging digital transformation, key stakeholders and employees need to be on board.

- Effective leadership. Digital transformation requires consistent leadership and commitment from the very top, from CEO Jean-Paul Agon to Chief Corporate Responsibility Officers and Chief Digital Officers.

- Sustainability and long-term growth go hand in hand. A more efficient and sustainable value chain which reduces waste can help to make cost savings, and this can underpin long-term growth. For example, a move towards being a digital first company reduces L'Oréal's physical footprint, and helps them to grow sales online.

Nestlé

Creating Shared Value

COMPANY STATS:
Founded: 1866
Locations: Vevey, Vaud, Switzerland
Employees: 291,000
Revenues (2019): $98 billion

The company's products include breakfast cereals, bottled water, coffee and tea, confectionery, ice cream, frozen food, pet foods, and snacks.

Famous brands include Vittle, Kit Kat, Nescafé and Nespresso. It operates 447 factories and sells in 189 countries.

In 2008, Nestlé launched its Creating Shared Value programme, with a range of targets covering environmental goals, improving conditions for suppliers and workers, and improving the nutritional value of its products.

According to Nestlé, "for a business to be successful in the long term it has to create value, not only for its shareholders but also for society."

This programme encompasses a range of targets, with new goals added since the beginning. For example, in 2018 Nestlé announced that it would make all of its packaging recyclable or reusable by 2025.

Nestlé is a multinational food and drink corporation, and is currently the largest food company in the world.

Objectives and targets

The Creating Shared Value programme's initial goals, outlined in its 2008 report, were under three broad headings:

- Agriculture and rural development. This covered aims such as increasing yields and incomes for farmers, and reducing consumption of natural resources, but were also tied to business goals such as securing supplies of raw materials.

- Environment, manufacturing and people. Goals included lower manufacturing costs and creating jobs in local communities.

- Products and consumers. Goals such as widening access to more nutritional products, and generating local investment and growth were tied to entering new/emerging markets, and achieving shareholder returns.

In these initial goals and the programme in general, Nestlé clearly links its environmental and other targets to business growth and vice versa. Each is only possible with the other. Reducing consumption of resources benefits society, but also helps Nestlé's business aims, and so on.

More recent goals have continued along these broad lines, with goals around nutrition and health, community and employment goals, and environmental targets.

The environmental goals have become more ambitious, and cover three main areas which contribute to the UN's Sustainable Development Goals 9, 12, 13, 14, 15 and 17.

- Caring for water.
 - Working to achieve water efficiency in its operations.
   - Advocating effective water policies.
   - Engaging with suppliers.
   - Raising awareness of water conservation and improving access to water and sanitation across our value chain.
- Acting on climate change.
-    - Providing leadership on the issue.
-    - Promote long term engagement in climate policy.
-    Safeguarding the environment.
-    - Improve the environmental performance of packaging.
-    - Reduce food loss and waste.
-    - Provide accurate environmental information and dialogue.
-    - Preserve natural capital.

The overall ambition set out in the 2018 report was to 'strive for zero environmental impact' in the company's operations.

CREATING SHARED VALUE AT EACH STAGE OF THE VALUE CHAIN

	Agriculture and rural development		Environment, manufacturing and people	Products and consumers and people	
	Expertise and support for farmers	Providing ongoing R&D and expertise for suppliers	Investing in local manufacturing plants	Building brands through responsible marketing	Increasing volume and value of sale
Value for Nestlé	Securing supplies of high-quality raw materials	Improving community relationships and product quality	Lowering manufacturing and distribution costs	Entering new and emerging markets	Achieving competitive shareholder returns
Value for society	Securing supplies of high-quality raw materials	Improving community relationships and product quality	Creating jobs in local communities	Widening access to nutritional products consumers prefer	Generating local investment and economic growth

Organisational and value chain challenges

The drive to sustainability within Nestlé required the company to consider all aspects of its value chain, from suppliers and partners to its own employees.

A change towards a more sustainable way of doing things isn't just about making announcements at board level, but about gaining the cooperation of all stakeholders and employees.

One example of this is Nestlé's use of external advisory groups, such as the Creating Shared Value Council, which is made up of experts who offer advice on corporate social responsibility, strategy, sustainability, nutrition, water and rural development and help to guide and assess Nestlé's progress towards its goals.

It also uses larger stakeholder groups which consist of customers, employees, academics, NGOs and more.

It had also required partnerships with organisations to help achieve its goals. For example, it partnered with Rainforest Alliance on its Nespresso AAA Sustainable Quality Program, which aimed to assess and measure the impact of the company's products and procedures on farmers, communities and the environment.

Nestlé's Nespresso coffee pods are a good example of how the company is working towards its goals, such as the commitment to make packaging recyclable or reusable.

The aim has been to create a circular economy around its coffee pods, so that nothing goes to waste and the pods can find another purpose once they've been used in coffee machines.
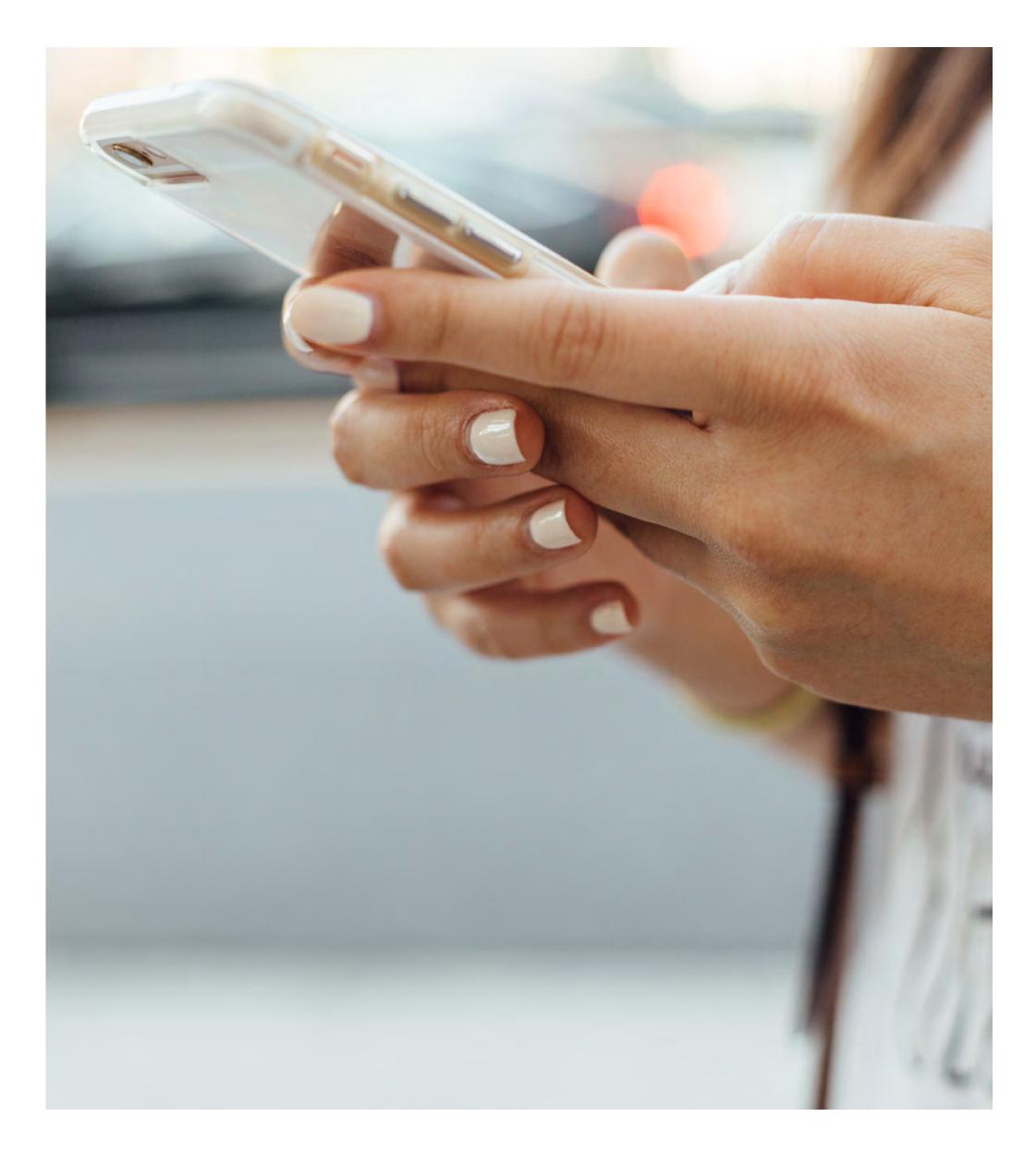
The choice of material is a first step. Aluminium, which Nestlé uses for the pods, is an environmentally friendly material, as it can be recycled infinitely without any loss of quality. Indeed, it's estimated that three quarters of aluminium ever made remains in use.

While Nestlé doesn't re-use the aluminium from its recycled pods for its own products, they are used for other products so that recycled pods don't go to waste. Nestlé has set up a recycling ecosystem so that the aluminium from pods is used for by third party firms to make products including pens and bicycles.

For this to work, it's also important to encourage customers to recycle. If customers merely throw used pods into the bin and it ends up as landfill, then the company's efforts are fruitless.

To this end, Nestlé has been encouraging recycling programs. In the US for example. Nestlé has partnered with UPS across 48 states to collect pre-paid recycling bags from consumers and add collection points.

The importance of digital transformation

Change on such scale can require massive organisational change, and has also coincided with a drive towards digital for Nestlé.

This digital transformation drive was led by SVP and Chief Information Officer Filippo Catalano, who joined the company in 2015.

Nestlé's digital transformation has included the adoption of digital technology in the manufacturing process, as well as moving into digital channels and expanding its ecommerce operations. According to Catalano, speaking in 2018, company culture is key to this:

"Culture is not something you deploy. Leaders at every level need to gently nudge people towards the desired behavior and reward people that have those behaviors. When someone does something innovative that is against the status quo you need to give a sign as a leader, in support of them. Otherwise no one will dare to try.

Avoid developing technology for technology's sake. Everybody with a tech function has to articulate the purpose, value and benefit in business terms."

Nestlé has focused on customer engagement online. Online channels are where many of Nestlé's current and future customers will be, so this is a key area.

It has increased media spend on digital, improved ecommerce, and increased the use of personalization in marketing messaging. In 2019, 20% of Nestlé's consumer contacts were personalized, with the objective of 40% by 2020.

Impact and results

The Creating Shared Value programme is ongoing, with many targets set for beyond 2020. The company has shared its progress in annual CSV reports,with the latest version covering 2019.

Overall the company has made progress in all of its environmental goals, with some completed and others on course of completion over the next five years.

Caring for water
- By 2019 Nestlé had reduced water withdrawal per tonne of product of 31% since 2010.

- Nestlé is 'on track' to meet its commitment for reviewing water use and improving efficiency at its facilities, with six reviews completed in 2019.

- Water stewardship plans have been implemented at 27 factories.

- In 2019, Nestlé implemented 371 water-saving projects at factories, saving 3.5 million m^3 of water.

Acting on climate change
- Reduced greenhouse gas emissions per tonne of product by 10% compared to 2014.

- Roughly one third (189) of Nestlé's factories now purchase 100% of their electricity from renewable sources.

- In 100 major warehouses, emissions have been cut by 35% compared to 2014.

Safeguarding the environment
- Nestlé has analysed its use of packaging and reduced its usage by more than 140,000 tonnes between 2015 and 2020.

- In 2019, 87% of Nestlé's packaging was recyclable or reusable, with the target of 100% by 2020.

- Food waste per tray has decreased from 70.32g per day to 47.25g, which translates into a reduction in food waste by 838.87 tonnes per year between 2012 and 2018.

- 76% of Nestlé's agricultural raw materials were confirmed to be deforestation-free by March 2019.

The progress was underlined by Nestlé's performance in the Dow Jones Sustainability Index (DJSI). The DJSI measures the world's largest 2,500 companies towards sustainability goals, ranking them across five key sectors.

Nestlé was the best performer in the food and drink sector, with an overall score of 92% across all three areas, Economic, Environmental and Social. It's environmental score was 100%.

It's digital transformation strategy has also translated into progress in its online channels, with ecommerce accounting for 8.5% of the group's sales, an increase of 18.5% in 2018. Group sales reached $98 billion in 2019, growing by 3.5%.

Key Takeaways

- Sustainability and long-term growth need to be linked. From the beginning of the Creating Shared Value program in 2008, Nestle has emphasised the business case alongside the need for a more sustainable model. A more sustainable value chain reduces waste, and helps to improve profit margins, while increasing yield benefits farmers and Nestle alike.

- Sustainability is a long-term project. With the current CSV project beginning in 2008, and other initiatives beginning before that, Nestlé's example shows that sustainability takes time. Some targets can be more challenging than others, and Nestle has been able to make key changes while keeping stakeholders on board and maintaining profitability.

- Sustainability and digital transformation go hand in hand. A drive towards sustainability and the increased adoption of digital technology and channels require similar changes within large organisations. It requires the cooperation of all employees and partners, and needs to be driven effectively from above.

- The importance of partnerships and outside advice. Nestle is a large company, but doesn't have all the answers and expertise required cannot always be found within the organisation. Through the use of partnerships and advisory groups like the Creating Shared Value Council, the company has been able to draw upon a wide range of expertise.

- The need to examine the whole value chain. To create a sustainable value chain, it's necessary to examine every area to identify areas for improvement and opportunities to reuse materials. So, to improve the recycling of Nespresso coffee pods, Nestle has had to think about materials, work to encourage consumers to recycle, and to find partners to use the recycled product.

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