



## Responsible Sourcing in the Value Chain



- **Creating Shared Value** is the basic way we do business, which states that in order to create long-term value for shareholders, we have to create value for society. But we cannot be either environmentally sustainable or create shared value for shareholders and society if we fail to comply with our **Business Principles**.
- This involves **compliance** with national laws and relevant conventions, as well as our own regulations, which often go beyond our legal obligations. For example, we support the Universal Declaration of Human Rights (UDHR), which stands at the basis of the UN Global Compact's Human Rights Principles, and our CEO Paul Bulcke signed the UN Global Compact for the 60th Anniversary of the UDHR.
- Our detailed commitments to the UN Global Compact, the Fundamental Conventions of the International Labour Organisation (ILO) or other relevant instruments, are laid out in our **Nestlé Corporate Business Principles** and related policy documents, and their application is verified through our **CARE** programme and our internal Corporate Group Auditors.
- Beyond that, how we do business is based on **sustainability** - ensuring that our activities preserve the environment for future generations. In line with the Brundtland Commission's definition, sustainable development to Nestlé means "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".



- At the same time, **Creating Shared Value** goes beyond **compliance** and **sustainability**. Any business that thinks long-term and follows sound business principles creates value for shareholders and for society through its activities eg.: in terms of jobs for workers, taxes to support public services, and economic activity in general.
- But **Creating Shared Value** goes one step further. A company consciously identifies areas of focus, where: a) shareholders' interest and society's strongly intersect, and b) where value creation can be optimized for both. As a result, the company invests resources, both in terms of talent and capital, in those areas where the potential for joint value creation is the greatest, and seeks collaborative action with relevant stakeholders in society.
- At Nestlé, we have analyzed our value chain and determined that the areas of greatest potential for joint value optimization with society are **Nutrition, Water and Rural Development**. These activities are core to our business strategy and vital to the welfare of the people in the countries where we operate.

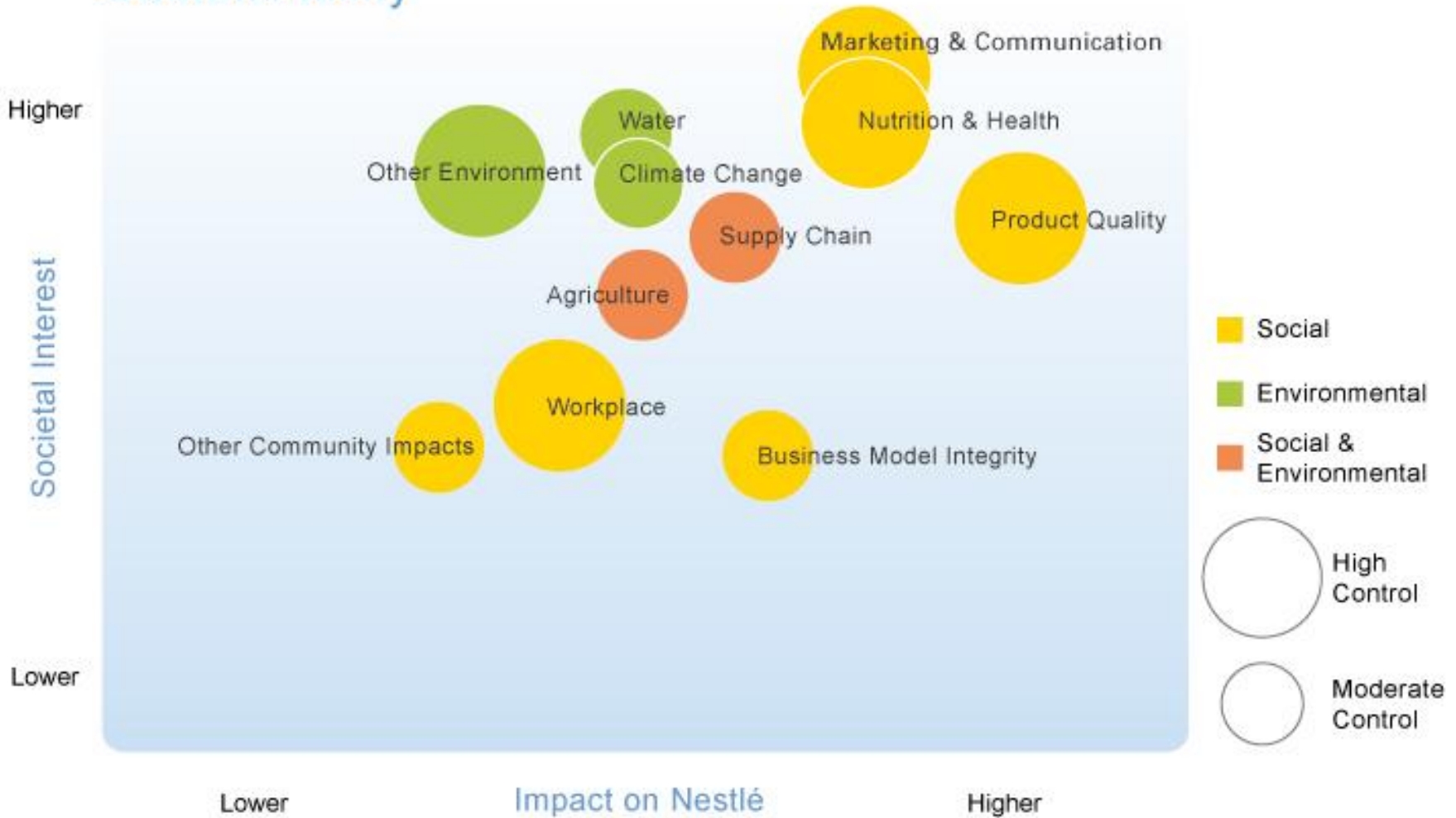




- For the first **Creating Shared Value** Report published in 2008, we worked with SustainAbility, an independent corporate responsibility and sustainable development consultancy, to undertake a systematic process to prioritize the issues deemed most critical to the Company, drawing on the opinions of investors, civil society groups and the media, and assessing them with Nestlé executives.
- For this report, we again asked SustainAbility to review this prioritization. Firstly, they conducted a comprehensive identification of sustainability issue "clusters" of relevance to our business, in collaboration with Nestlé executives. Then, for each issue cluster, SustainAbility assessed the degree of societal interest from investors, NGOs and the media, the potential impact of the issue on our business, and our ability to influence the issue. This resulted in a set of validated priority issues ranked according to relative impact on society and impact on our business.
- We concluded that while the relative materiality has not changed, external interest has increased for all of Nestlé's top issues, with **Nutrition, Health and Wellness** and **Marketing and Communication** increasing in interest to the investor community in particular. It also became clear that, alongside water, climate change is a critical issue cutting across each stage of the value chain (see chart).



## SustainAbility





- The following areas were therefore prioritised for inclusion in this report:
- Nestlé's strategy of using **science and technology** to create **nutritionally superior products**, and responsible communication about Nutrition, Health and Wellness to consumers (see **Nutrition**); how we manage our operations with respect to the environment, with particular focus on the availability and accessibility of water and the impact of climate change (see **Water and Environmental sustainability**); Nestlé's approach to agricultural sourcing and supplier development (see **Rural development**); operating as a responsible employer (see **Our people**). As part of our commitment to more evidence-based reporting, we also asked SustainAbility to facilitate, in collaboration with Nestlé experts, the process of developing a select number of strategic Key Performance Indicators (KPIs). The goals and actions are listed at the start of each section. We welcome feedback on these KPIs, goals, and actions, and how these may be improved to more effectively communicate and to drive progress against our CSV strategy.



“Small changes can make a big difference. We have introduced bottles made from 25% recycled plastic, and through a partnership with GreenOps, which has built recycling stations in stores like this one, we encourage more people to recycle.”

**Monique Mims, Senior Innovations Manager, Nestlé Waters N.A., USA**

“Recycling is one of our core values, going back 30 years when Whole Foods started. It’s about caring what we do in our communities and says a lot about what we do as a company. We collect returned plastic bottles in the machines provided by our partner GreenOps, and they reprocess them.”

**Tony Banuelos, Store Team Leader, Whole Foods Market, West Hollywood, LA, California, USA**

- **Value for Nestlé:** Continuously improving environmental performance; productive factories; reduced risks; reduced costs; long-term availability of raw materials and water; sustainable, profitable growth.
- **Value for society:** Raising of environmental standards; higher incomes; better standards of living.





"I run a nutrition programme for the mothers of this pre-school. We address the nutritional requirements of the consumers through products such as Nespray Everyday, which is fortified with vitamin A and aimed at low-income families. We aim to give them a better understanding about nutrition, and to address a main nutritional deficiency in Sri Lanka – vitamin A."

**Nadeesha Chandrasekera, Consumer Services Manager, NLPLC**

"I am really happy that I had the opportunity to participate in this nutrition programme at my child's pre-school. The information we received on general nutrition and its impact on our growing families is very important. It is a good thing for all of us that Nestlé came here to conduct this programme, advising us on how we may provide healthy nutrition to our children. Today, even I was educated in my daughter's school."

**Vasanthi Pathiraja (pictured with her daughter Vasitha)**

- **Value for Nestlé:** deeper understanding of nutrition and health issues as well as fruitful collaborations with various stakeholders, both informing our innovation and renovation efforts, brand awareness and recognition; consumer loyalty; long-term enhanced growth, market share and profitability.
- **Value for society:** greater access to safe, high-quality, responsibly produced, nutritious food; greater knowledge of health issues, better understanding of how to use Nestlé products as part of a healthy and enjoyable diet.



"Before I joined the programme, everything was more difficult, but today, when I look at myself and my family, I am certain the future is brighter. This is because of the advice given by Nespresso and the higher price we are paid for our coffee. Coffee is now a valuable asset – it's my asset, an asset for my community and for our country..."

**Leticia Monzon de Herrera, farmer**

"Coffee producers participate in the Nespresso AAA Program, not just because a price based on quality motivates them to make positive changes in their farms, but also because we are here on site, helping them to improve their social and environmental conditions, offering a better future for their families and their communities."

**Juan Diego Roman, Nespresso AAA Program Manager for Central America**

- **Value for Nestlé:** More secure supply of better-quality raw materials; lower procurement costs; consumer preference for our products; profitable growth.
- **Value for society:** Advice and technical assistance; greater yields; higher quality crops; lower resource use; increased income; wider employment and economic development opportunities; consumers aware our products are safe, of high quality and produced using sustainable practices.



“I would like to develop my career in Nestlé, and it is encouraging to see that the management is committed to diversity, and particularly gender balance. I feel reassured that support programmes are in place and that I can get advice from my mentor.”

**Kaori Murata, employee, Nestlé Japan**

“I believe high-performing organizations require environments where each employee can contribute with their own unique character, and where their abilities are fully developed and utilized. As the leader of the Women & Leadership Taskforce, I focus on ensuring an environment where women – currently a minority group in Nestlé in Japan – can work with flexibility, a long-term perspective, and pride.”

**Kaori Hanks, manager and leader of the Women & Leadership Taskforce, Nestlé Japan**

- **Value for Nestlé:** Skilled and motivated workforce; improved performance; superior business results; sustainable growth.
- **Value for society:** Employment opportunities; potential for a better standard of living; opportunities for self-development; higher workplace safety standards.



- The primary way we create value is by offering consumers tasty, nutritious products that contribute to their health and well-being, but we also create value for people and society across the entire business value chain – for farmers who supply us raw ingredients, for communities where our factories are located, for suppliers who work with us, and for our trade partners.
- The diagram below illustrates how Nestlé's actions, driven by **Creating Shared Value**, create value for the business (in economic, innovation, social and environmental terms) that is shared with the societies where we are present. It was developed as a conceptual framework to measure a company's overall net impact on its stakeholder groups by the Centre for International Business at Leeds University Business School.
- The matrix has already been used to assess the full impact of some of our business activities, such as the construction of our new Nespresso factory in Avenches, Switzerland and our milk district operations in Pakistan.



# Creating Shared Value and The Value Chain



	Economic	Innovation & Knowledge transfer	Social / health environment
Consumers	Consumer surplus	Knowledge on nutrition & health	Fortified food manufactured products with low cost
Suppliers & Distributors	Suppliers of raw materials and packaging	Knowledge transfer to farmers, improvements in the food value chain	Sustainable processes (eg. farming, animal health)
Industry	Price and cost pressure on other actors of the industry to productivity	Knowledge spillovers (copying & competitive pressure,) improve the efficiency of food industry	Improvements of labour & environmental standards
Employees	Jobs & income for employees and their families	Training of employees	Social security, workplace health & safety
Communities/ Government	Taxes, infrastructure, etc	Community education programmes (eg. Healthy Kids)	Rural development: more sustainable use of resources
Shareholders	Increased share-holder value		Shareholder value for pension funds

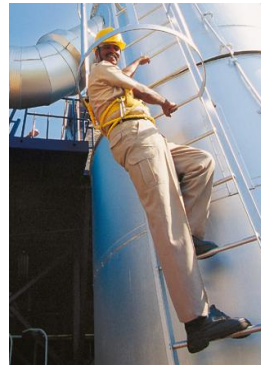




## What is responsible sourcing?

Motivation for responsible sourcing

Making it work





## Responsible Sourcing

is the process of purchasing goods and services

- produced or provided in conditions that do not cause harm to humans, animals or the natural environment.
- from suppliers that meet minimum requirements regarding **business integrity**, **labour conditions**, **health and safety** and **environmental standards** in their business activities, production processes, service provision and their own purchasing procedures.



## The Nestlé Corporate Business Principles

stipulate values and principles to which Nestlé has committed worldwide.

« Key suppliers are audited in order to ensure that they comply with Nestlé's principles or that they are working actively to achieve compliance. »

## The Nestlé Supplier Code

specifies and supports the implementation of non-negotiable minimum standards for suppliers, their employees, agents and subcontractors.





What is responsible sourcing?

**Motivation for responsible sourcing**

Making it work





## Reduce Risk

- Non-compliance of a supplier is a risk for the supplier:
  - fines and penalties, « license to operate »
  - costly mitigation measures
- Non-compliance of a supplier is a risk for Nestlé:
  - supply disruption,
  - impact on reputation and brand value

## Create Benefit

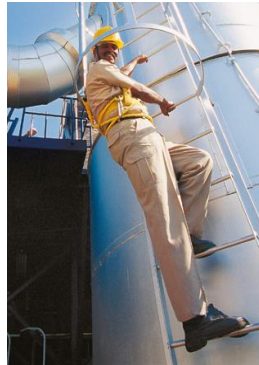
- long term and reliable supply relationships
- meet customer requirements and investors expectations
- «Nestlé stands for good production practices »

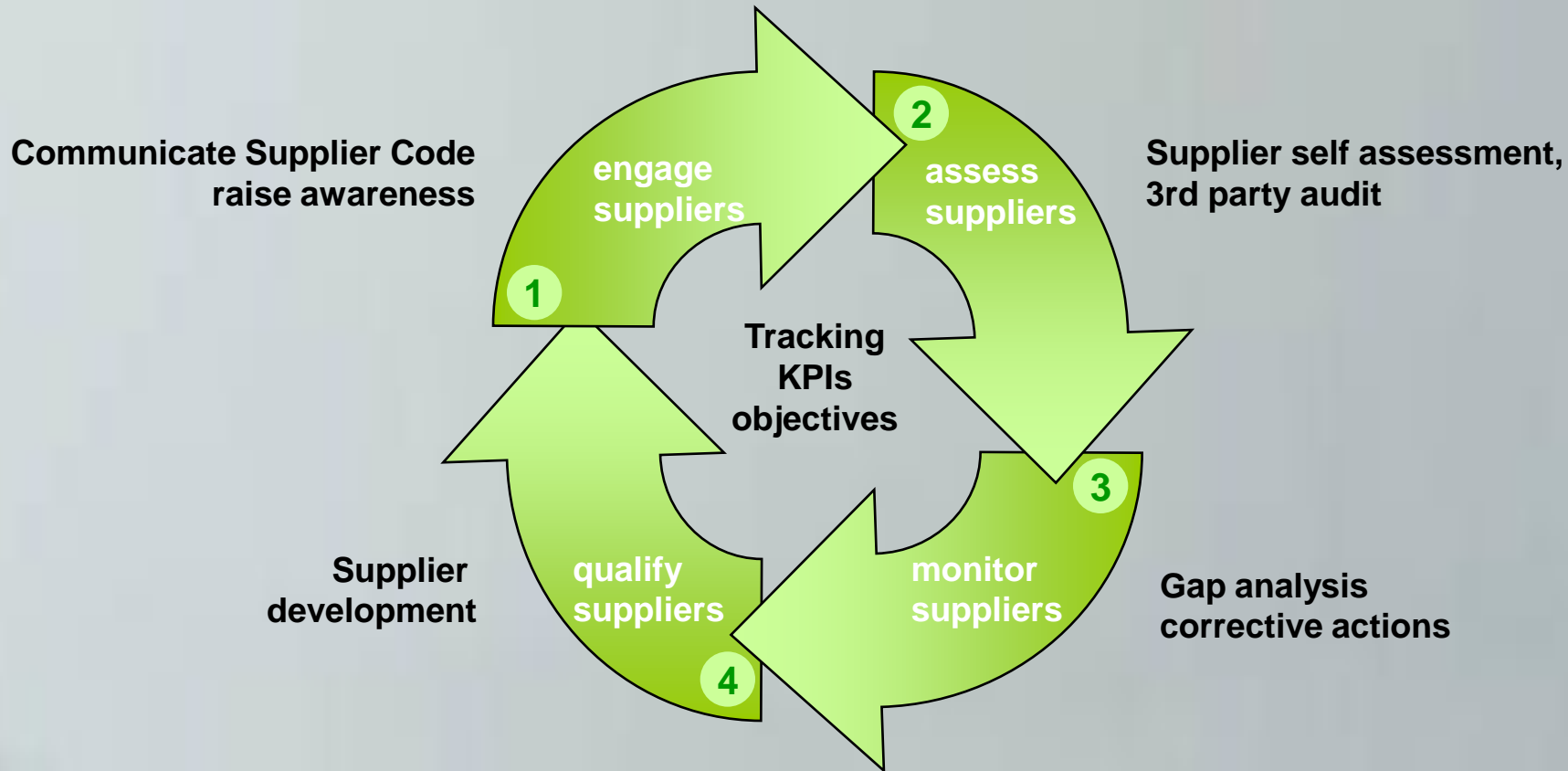


What is responsible sourcing?

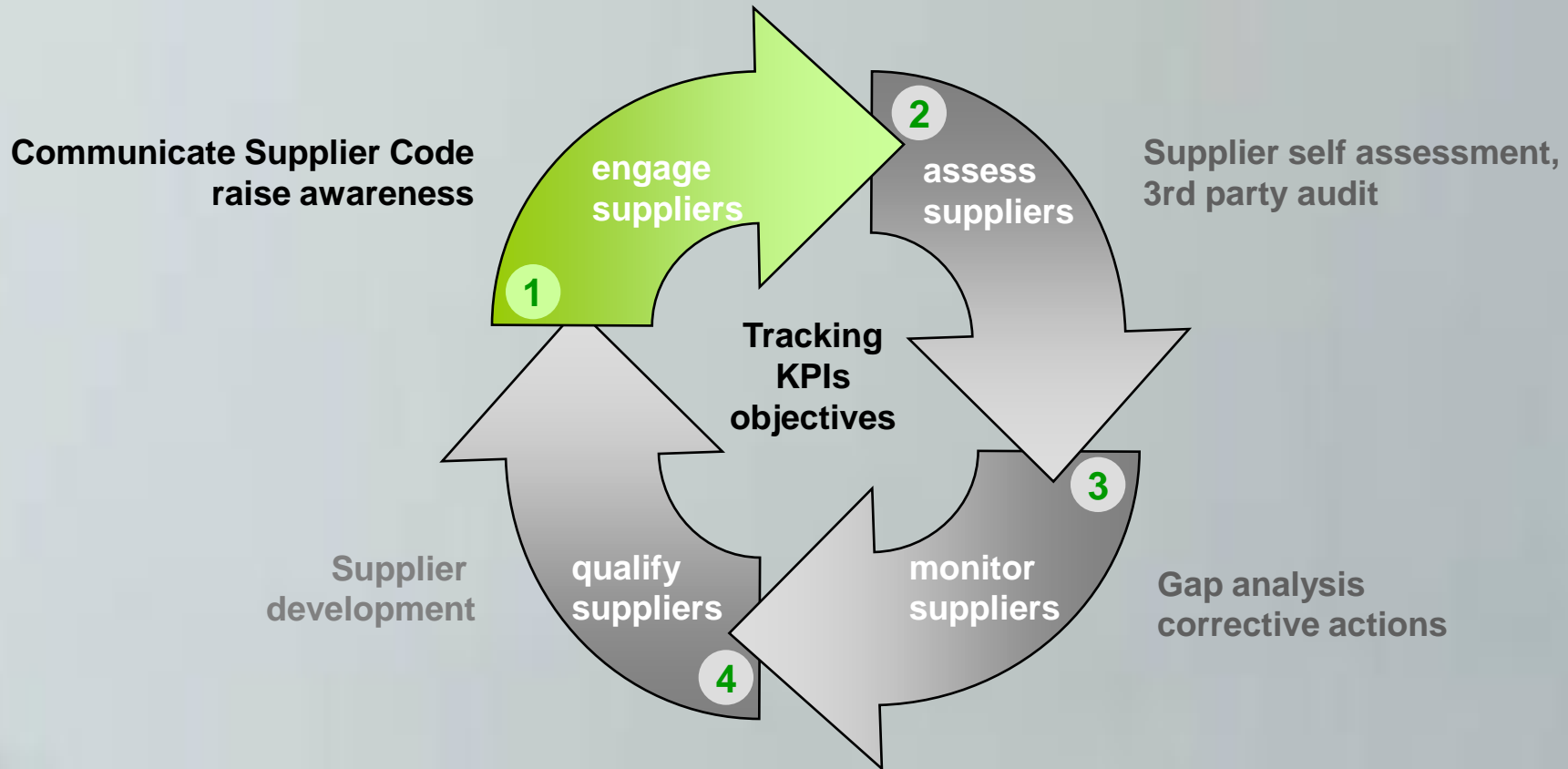
Motivation for responsible sourcing

**Making it work**





➤ We work together with our suppliers to achieve good standards.





Policy  
Mandatory  
Confidential  
July 2009

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## The Nestlé Supplier Code



## The Nestlé Supplier Code

specifies and supports the implementation of non-negotiable minimum standards for suppliers, their employees, agents and subcontractors.



## The Nestlé Supplier Code

encompasses 4 key areas:

**Business Integrity**

**Labor Standard**

**Safety & Health**

**Environment**

- The Supplier Code requires compliance with local law.
- Beyond legal compliance, the Supplier Code gives orientation.



## Internet

- available on [www.nestle.com/suppliers](http://www.nestle.com/suppliers) in various languages

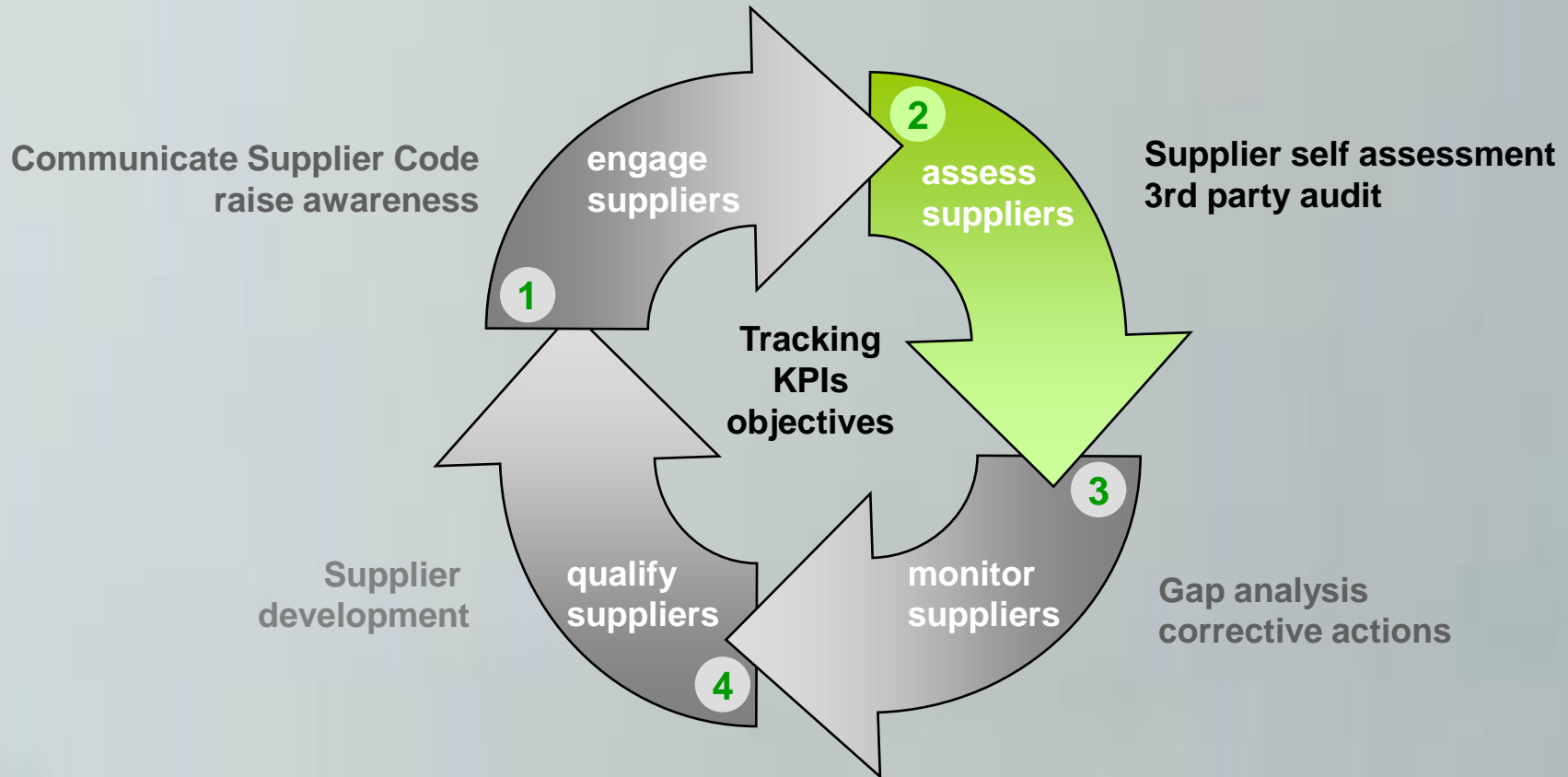
## SAP POs & SAP contracts

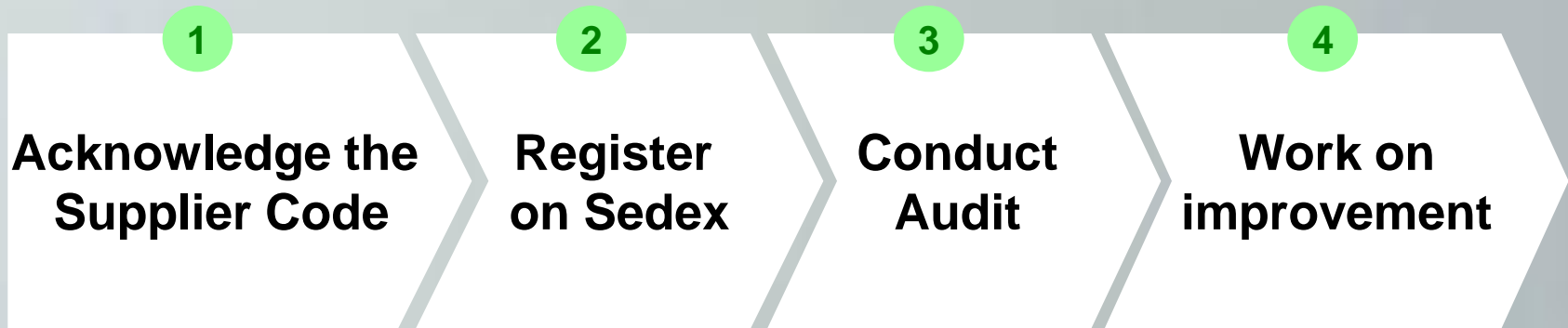
- Purchase orders and contracts contain a reference and link to the Supplier Code on the internet

## Suppliers express acknowledgement

- by fulfilling the Purchase Order
- by agreeing with the Contract







- The Supplier Code requires compliance with local law.
- Beyond legal compliance, the Supplier Code gives orientation.

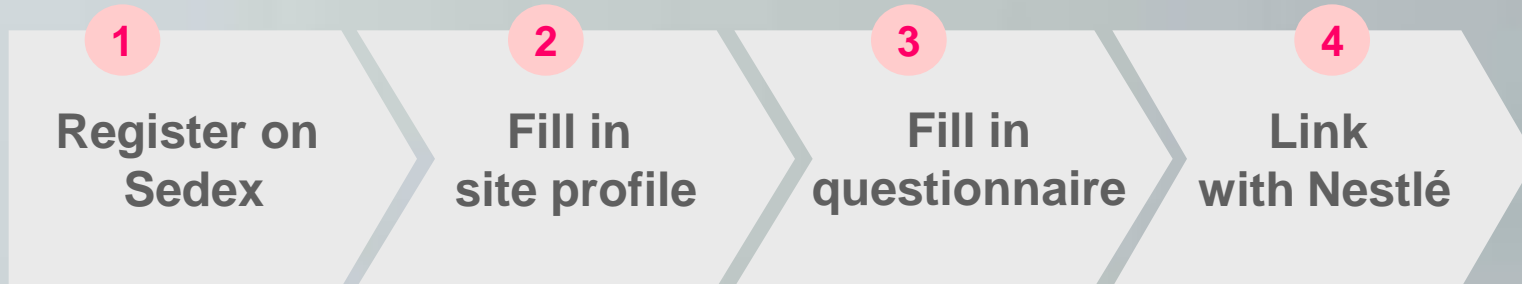
## SEDEX



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

provides a secure platform to share information on suppliers' social and environmental performance and thus helps avoid multiple assessments.

membership fee: GBP 28 per site/per year



- Suppliers can share their information on SEDEX with any other of their customers.
- Suppliers can use SEDEX for their own supply chain.



**SEDEX**      Supplier Ethical Data Exchange      [www.sedex.org.uk](http://www.sedex.org.uk)

is a provider of a web based data system to share information on suppliers' social and environmental performance between suppliers and buyers and thus helps avoid multiple assessments and audits.

SEDEX is used by 200.000 suppliers and 250 customers, e.g.: Kraft, Unilever, PepsiCo, Mars, Danone, Britvic, United Biscuits, Diageo, Bacardi, Cadbury.

### Principles:

- Supplier owns data and controls who can see the data
- Companies cannot view each others' supply chains



# Win-win through AIM-Progress initiative



+ Global initiative and external support through European and American brand associations AIM and GMA

- AIM-Progress members use common assessment methodology and internet-platform (Sedex) to generate synergy effects
- Members share assessment and audit results to avoid cost of multiple audits, redundant administration and suppliers' "audit fatigue"

+ AIM Progress and Sedex ensure protection of sensitive information among competitors; suppliers own their data and provide access one by one

+ Members and their suppliers build a critical mass to effectively achieve changes in the supply chain





## External audits

- On site investigation of suppliers' compliance with national legal requirements and Nestlé Supplier Code
- External auditors conduct the audits covering labour standard, occupational health and safety, environment and business integrity
- Audit methodology aligned with industry standards to enable mutual recognition
- Audit report states good practices and non-compliances



## Audits encompass:

### **Business Integrity**

bribery and corruption  
legal compliance

### **Labor Standard**

working hours, discipline,  
compensation, discrimination

### **Safety & Health**

occupational  
health and safety

### **Environment**

environmental performance  
and process impacts of the site

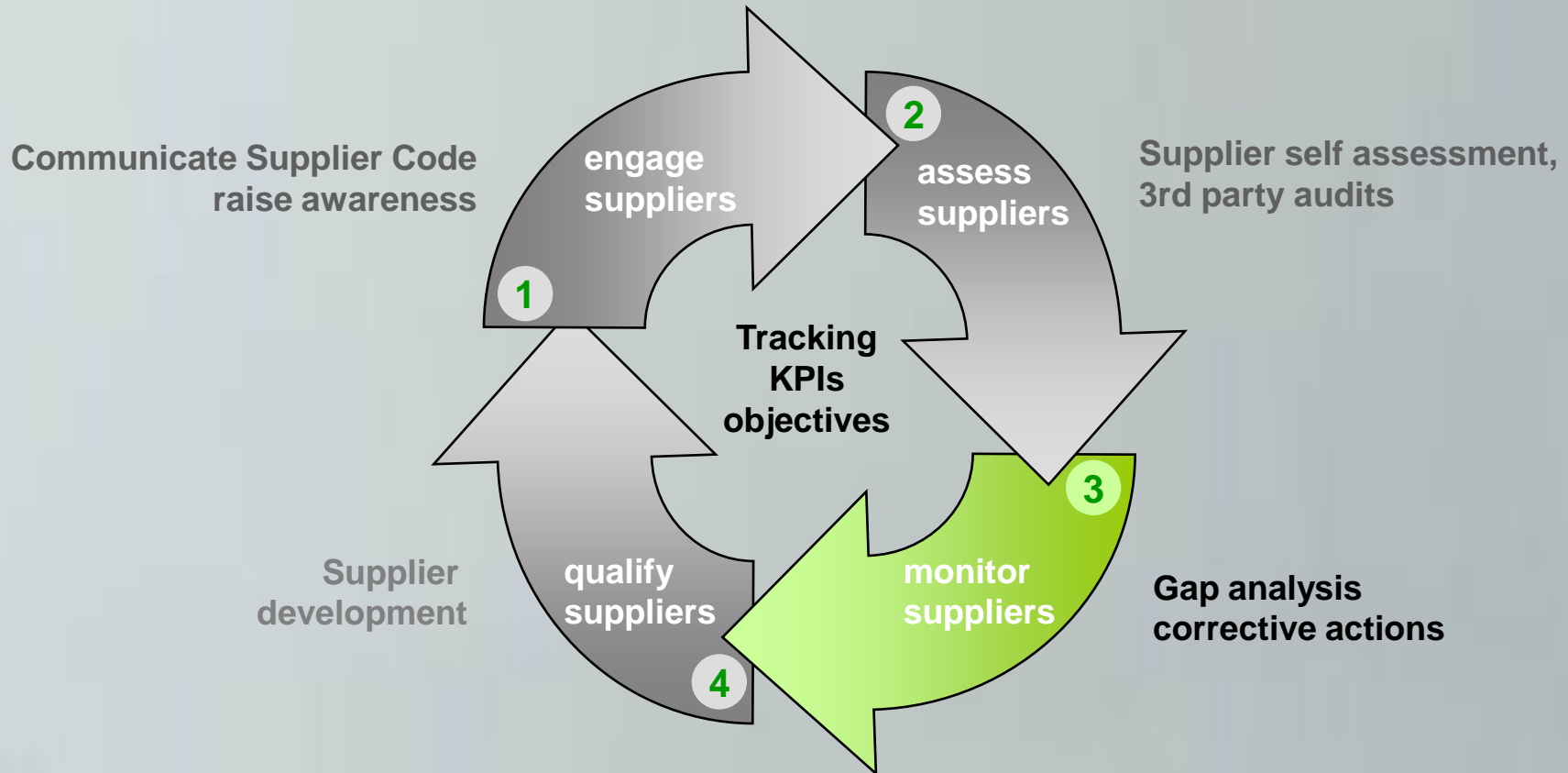
## 3rd party audits

suppliers commission approved auditing bodies: SGS, Intertek, BV  
 audit bodies ensure neutrality, recognized methodology  
 suppliers own audit report - may share report with other customers  
 duration: depending on site size, 2-4 person days,  
 cost: depending on country, around 600 –1200 USD/person day



- Suppliers can share their audit reports on SEDEX with any other of their customers that use SEDEX.

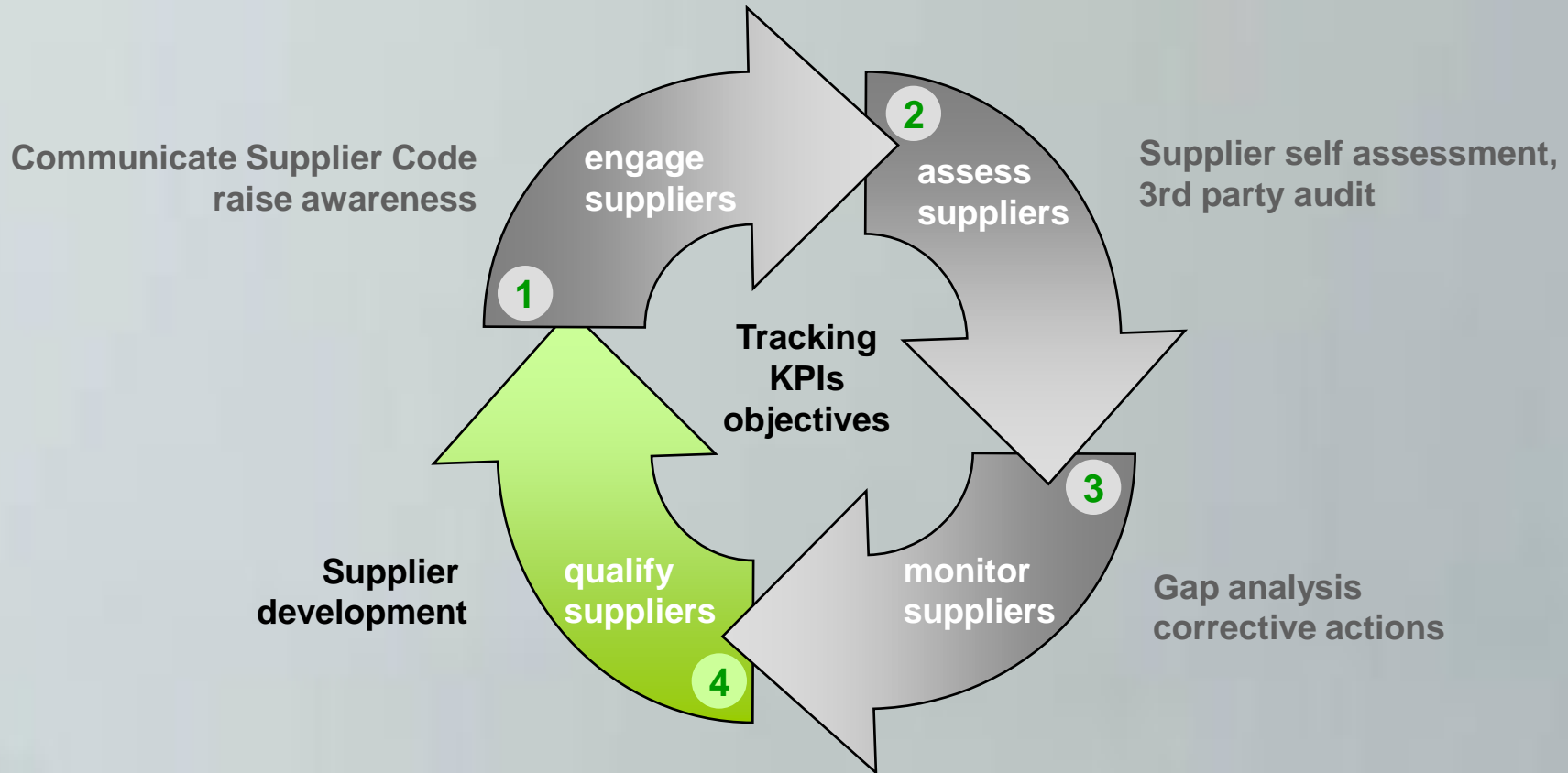






## Corrective action plans

- Audit report states good practices and non-compliances
- Supplier commits to corrective actions and timelines
- Supplier provides evidence on effective implementation
  - Documentation
  - Follow-up audit focusing on the non-compliance and its effective remediation
- Buyers consider progress in supplier evaluation





### Ensuring the basis for good business relations:

- Partnership and collaboration
- Long term view

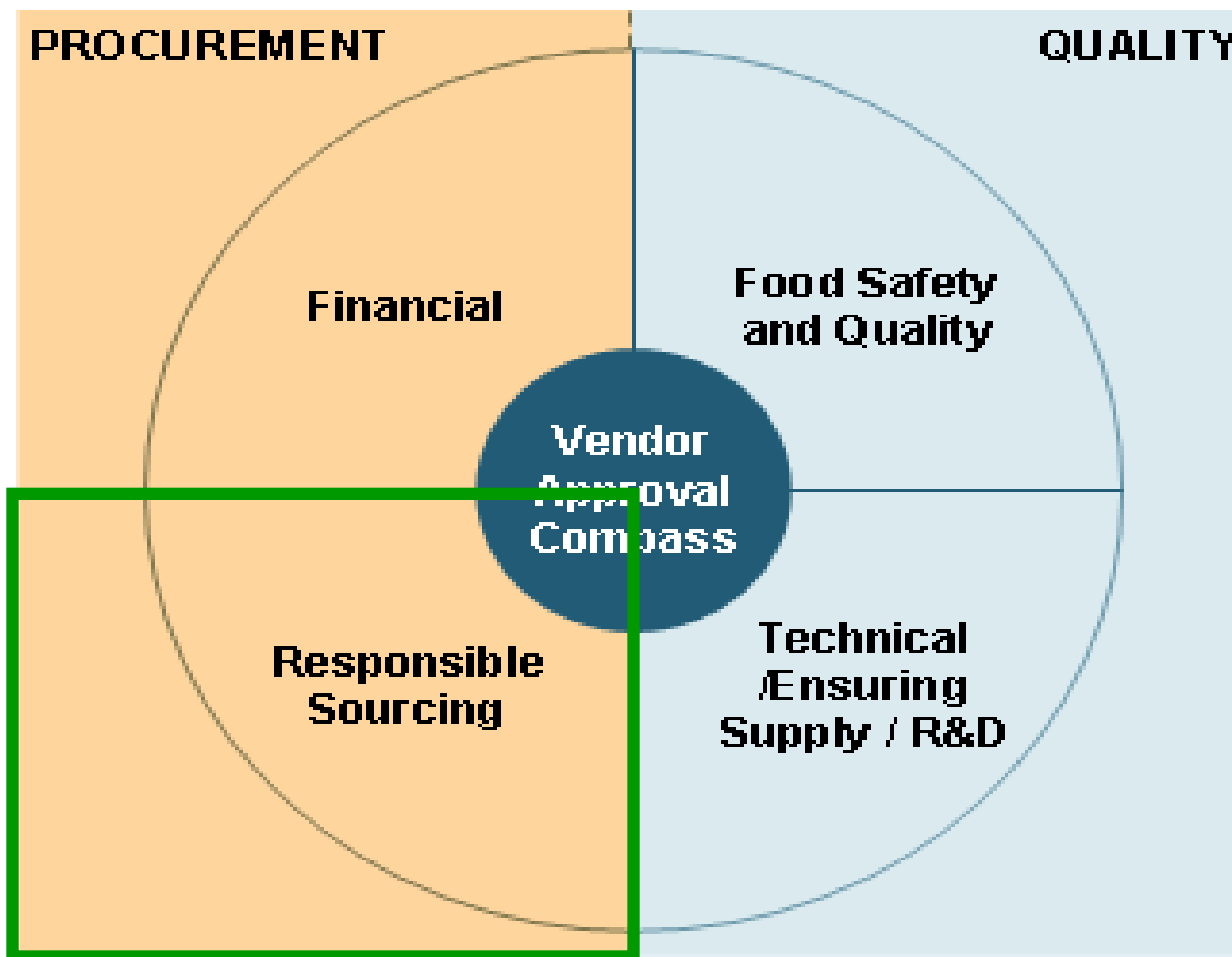
**Ensure  
legal compliance**

**Improve  
effectiveness**

**Improve  
efficiency**

**Competitive  
advantage**

- Common standards - fair competition between suppliers.
- Suppliers can prove their performance to all customers.
- Reliable business relations.





Good Food, Good Life