Sustaining values

Driving the sustainability agenda in Grocery

2021
Sustainability will remain relevant for consumer markets beyond Covid-19

Relevance and implications

Relevance of sustainability

- Sustainability consideration drives purchasing decisions and consumer behavior
- Government agencies are stepping up regulatory demand to foster sustainable practices
- Covid-19 accelerated the awareness of sustainability especially for consumer goods

Implications

- Prepare for a focus shift in consumer behavior and the whole ecosystem already now and after Covid-19
- Examine current sustainability efforts within your company and along the value chain
- Identify key topics and actions to answer these that your strategy will benefit from in the long term

Examples

- Supermarkets must rethink their approach to food waste in the face of Covid-19

  By Kris Hamer, VP research, Retail Insight | 23 February 2021

  Reducing waste is not only environmentally and ethically right - it cuts costs, says Kris Hamer, VP research at Retail Insight

- Germany bans plastic bags from 2022

Source: Strategy& Analysis
We see four specific challenges for the grocery industry which need to be addressed to increase the focus on sustainability

**Top 4 challenges**

<table>
<thead>
<tr>
<th>1</th>
<th>Strategy</th>
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<tbody>
<tr>
<td><strong>Emissions</strong></td>
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<tr>
<td>• Rising demand among all stakeholders to measure carbon emissions</td>
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<td>• The grocery’s product portfolio is changing to a focus on plant-based, organic and ethic products</td>
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<td>• More consumers are shopping local to reduce layers and ensure transparency / traceability</td>
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<th>2</th>
<th>Waste</th>
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<tr>
<td>• Waste mgmt. standards are improving while logistical and technological challenges remain</td>
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<tr>
<td>• Current business models need to be adapted to circular economy to answer waste challenges</td>
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<td>• Consumers demand more sustainable products and prefer reusable products</td>
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<th>3</th>
<th>Supply Chain</th>
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<td><strong>Ethics</strong></td>
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<tr>
<td>• Insufficient protection and representation among the value chain</td>
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<td>• Limited transparency on health concerns etc. among the value chain for all stakeholders</td>
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<td>• Regulatory changes and laws demand to promote sustainable practices and discipline companies</td>
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<th>Reporting</th>
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<td>• Consumers push for active reporting and measuring of the environmental footprint of grocery players</td>
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<td>• Good relationship with suppliers needed to set critical KPIs and enable monitoring and progress</td>
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<td>• Increasingly used sustainability standards (SDG, SASB, GRI) which are requested in the market</td>
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Regulations, consumer demand and Covid-19 are pushing grocery players to reduce waste

**Importance of waste**

**Relevance of waste**

- New guidelines are extremely challenging for the packaging market
- Insufficient recycling rates are not aligned with the increasing packaging production e.g. plastics
- Consumers increasingly try to avoid packaging and plastic bags and prefer reusable packaging and alternative products e.g. cloth bags and bee’s wrap

**Acceleration by Covid-19**

- Consumers are more aware of packaging and food waste as more time is spent cooking at home
- Suppliers e.g. food producers are confronted with more food waste as OOH consumption decreased
- Companies are urged to reconfigure their global value chains by reducing waste and localizing sourcing strategies

86% of consumers would rather buy reusable products

“EU: parliament seals ban on throwaway plastics by 2021”

“No to the throwaway society” 5-point plan for less waste and more recycling

Source: PwC Study

1) OOH = Out of home
The circular economy represents an attractive alternative model to transition towards effective waste reduction

Circular economy implementation

**Implementation**

1. **Formulating a circular strategy**
   - Rethinking business models and changing corporate strategy
   - Affecting all areas of every industry and company
   - Requires a long-term view and investment

2. **Engaging in a transformation process**
   - Changing companies vertically and horizontally
   - Requires changes to the system organization and behavior
   - Entailing new technologies and new collaborations

3. **Monitoring the steps towards circularity**
   - Defining concrete indicators to measure progress
   - Establishing management and reporting processes is paramount to further refining a circular strategy

**Exemplary project: comprehensive packaging strategy**

**Situation**
- Our client wanted to change away from the linear economic model to a circular one aiming to close loops and use resources in the best possible way across the entire value chain
- Thus the client wanted to work towards a circular economy to reduce the environmental footprint, accelerate innovation and increase profitability of products

**Actions**
- Analyzed their product portfolio and developed a rating system concerning environmental footprint of packaging
- Identified hot-spots and improvement opportunities to define sustainability criteria for packaging

**Results**
- Developed a comprehensive packaging strategy for the client to reduce environmental impact from packaging
- Integrated the sustainable packaging strategy in the standard purchasing processes
- Aligned the circular economy strategy to the requirements of consumers
Rising demand on transparency and changing consumer needs urge for action on emissions

Importance of emissions

Relevance of emissions

- Visibility into supply chain operations is seen more and more as the norm by all stakeholders
- High demand for alternative and innovative products e.g. plant-based and organic products
- Consumers are increasingly lacking trust in globally sourced products and push towards local alternatives

“First carbon footprint labels to arrive in EU supermarkets”

66% of consumers prefer organic veggies and fruits

9% expected growth for the Europe plant-based market¹

Acceleration by Covid-19

- Consumers are increasingly changing their diet – 40% eat more fruits and vegetables, 34% reduced sugar in their diet
- Companies are seeing more benefits in in-house production to reduce and control carbon emissions
- Expectations of consumers on tangible and transparent environmental efforts by retailers are increasing

¹ Source: ReportLinker; CAGR in Food and Beverage market for 2020-2025
Limited transparency on manufacturing ethics and practices, push grocery to re-establish trust

Importance of ethics

Relevance of ethics

- Poor labor practices and missing contracts across the value chain for e.g. farm helpers
- Missing transparency on employee health & safety across the value chain for all stakeholders
- Changing regulations and laws urge grocery players to push sustainable ethic practices

Acceleration by Covid-19

- Consumers of high quality grocery products are more likely to change their diet for ethical reasons
- Companies will need to re-establish trust by creating more transparency along the whole supply chain
- Regulators increasingly hold companies legally accountable for human rights violations

+25% more revenue in fair trade products in Germany¹
39% of consumers do not trust manufacturing information
3/4 of consumers approve a transparent supply chain law

Source: PwC Study, Strategy& Analysis
1) Increase of revenue from 2018 to 2019
2) Vote for Konzernverantwortungsinitiative in Switzerland (11/2020), Discussion in Germany
Our perspective on sustainable supply chain is a holistic view from risk identification via strategy definition to assurance

**Sustainable supply chain**

1. **Identify, assess and prioritize** ESG risks and opportunities
2. **Define** sustainability requirements from suppliers
3. **Measure and monitor** sustainability performance
4. **Mitigate** risks, **reduce** negative impacts and **seize** opportunities
5. **Report** on performance, and **communicate** to and **engage** with stakeholders
6. **Receive** assurance on disclosures

**Project: supply chain decarbonization strategy**

- Updated the SC GHG inventory based on the PwC’s ESCHER methodology
- Analyzed the purchased goods for climate impact hotspots along the SC
- Developed SC targets in line with the requirements of the Science Based Targets initiative
- Elaborated the SC GHG emission abatement measures and assessment of overall GHG emission reduction potentials
- Advised in measuring progress towards target achievement and managing strategy implementation
Transparent sustainability reporting is increasingly requested by all stakeholders

**Importance of reporting**

**Relevance of reporting**

- **Stakeholders** ask for **value-oriented steering** and transparent communications
- **Meaningful KPIs** with **suppliers** are necessary to identify and steer impacts on **key areas**
- **Higher comparability** across **companies needed** by using **sustainability standards** (e.g. SDG, SASB)

**Acceleration by Covid-19**

- **Higher consumer and stakeholder awareness** of reporting limiting potential "good washing"
- Continuous **advances and consolidations** in **ESG reporting** expected
- **Decisions by UN climate change conference (COP26)** in November 2021 will urge **grocery players** to adapt **actions now**

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Only 45% of companies report on climate risks

**Just 4% of companies conduct a scenario analysis**

High momentum on global climate action and reporting by COP26¹
Our experts have relevant expertise and insights and are happy to discuss your choices for sustainable value creation.

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