Creating Competitive Gaps in upstream supply chains

Mr. Hans Jöhr
Head of Corporate Agriculture
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Agenda

- Threats and opportunities to feed 9-10bi people
- Sourcing objectives
- How do we create competitive gaps – different cases
- Sustainable Agricultural Initiative at Nestlé
- “Farmer Connect” presence and impact
- Conclusion
Threats and opportunities to feed 9-10 billion people

- Soil fertility
- Breeding
- Energy pricing
- Water Management
- Technical Assistance
- Policy interventions
Sourcing objectives

Ensure long-term supply of safe, quality assured, regulatory compliant and price competitive agricultural materials to serve our brands to delight consumers

How do we operate?
With lean upstream supply chains from farm gate to factory gate, called “Farmer Connect”

What is “Farmer Connect”?
Traceability up to farmers’ level by buying either directly from farmers, cooperatives or selective traders, applying Nestlé good agricultural standards, principles and practices with engagement in capacity building and training.

Why and where?
46% of Nestlé factories are located in emerging countries – the fast developing world and 74% of those Nestlé factories are located in rural areas.
Direct engagement with 556,000 farmers
E.g. coffee, cocoa, milk, vegetables, fruits,…
How do we create competitive gaps in the upstream supply chain?

With “Farmer Connect”, where we have direct contacts with producers to:

- Ensure **traceability** up to farmers’ level
- Assure **quality, safety** and **volume growth** of raw materials
- Mitigate **price volatility** exposure
- Reduce transaction costs
- and **serving our brands** guaranteeing access to specific raw materials
Creating competitive gaps in the upstream supply chain (1/3)

Quality Assurance and volume growth by managing milk districts (China)
Creating competitive gaps in the upstream supply chain (1/3)

Video show
Case “end-to-end”: Sourcing grains in Australia

Communication of needs (Consumer)

- varieties
- plant protection
- fertilizing
- agricultural practices
- quality & safety
- specs. on safety & quantity

Farmer

- seed breeding programs
- sustainable cereal farming practices
- e.g. soil & water conservation
- optimized use of inputs

Mill Storage

Transport

Customer Consumer

Functional & Emotional Benefits

SAIN sustainable cereal farming practices

Communication of activities

Nestlé Investor Seminar

June 7, 2011
Creating competitive gaps in the upstream supply chain (2/3)

Ensure supply, farmers’ loyalty and consumer benefits in the case of oat sourcing for breakfast cereals (Australia)
Creating competitive gaps in the upstream supply chain (2/3)

Video show
More than 10’000 farmers trained in Western Africa on “Good Agricultural Practices & Good Storage Practices”

Farmers produce now grains with mycotoxins levels within Nestlé norms (4ppb)

Farmers achieve a price premium

Market access created for locally produced grains in West Africa with a farm base value of > USD 20 mio

* In Partnership with the International Institute for Tropical Agriculture
Creating competitive gaps in the upstream supply chain (3/3): Local sourcing of grains in West Africa

Video show
Serving our brands: Nescafé Plan

THE NESCAFE PLAN: USD 380 Mio
Making the difference from farmer to consumer

A 3 pillar plan:
- Responsible farming
  - Farmers:
    - Farmer Connect:
      - 180 000 T
      - 170 000 farmers
      - 100% 4C compliant
    - 90 000 T of SAN
    - Training
  - Plantlets: 220 mio plantlets distributed by 2020
    - Better yield
    - Better Quality
    - Disease resistant
    - Promote bio-diversity

- Responsible production and supply
  - Soluble:
    - -20% energy / ton
    - -30% water / ton
  - Systems
    (Nescafé Dolce Gusto)
  - Nestlé Professional
  - Develop socio economic impact

- Responsible consumption
  - Promote consumption
  - Educate consumer on issue coffee is facing
  - Help consumer to reduce its footprint

To fuel the growth and give a competitive advantage

Making the difference from farmer to you
The Nescafe Plan in action: Mexico

Plant science

- Varieties selected according to agronomic performance AND consumer taste profiles

Supporting farmers

- Successful verification and granting of the first 4C License to Nestle Mexico

Partnerships

- Working relationship with local partners and communities formalised

Communication strategy for local and international market to be developed

Plantlet distribution

- Started coffee plantlet distribution to farmers

Farmer training

- Training according to 4C requirements
Nespresso AAA: Differentiated supply of speciality beans

Sustain with the AAA program a unique and distinctive global Solution for Nespresso suppliers to create incremental highest quality coffee and increase Real Farmer Income™ for a sustainable sourcing...

This program is distinctive in that it adds a quality dimension to the sustainability principles (economic, social and environmental).

From 2003 to 2009

\[ AA + A = \text{Highest quality + sustainability} \]

Towards an integrated Coffee Sourcing Strategy
Sustainable Qualitivity™

From 2009 to 2015

\[ A + A + A = \text{Highest quality + sustainability + productivity} \]

Verification + Certification

Rainforest Alliance
Nespresso AAA: Differentiated supply of speciality beans

Quality
- Best practices and trainings
- Traceability
- Sensory profile & physical acceptance
- Post harvest infrastructures (Sun dryers, fermentation tanks, depulpers)

Sustainability
- Sustainable Agriculture Network (SAN) standards compliance
  - Water use and disposal
  - Pesticides and protection
  - Internal Control System
  - Minimum age on wages

Productivity
- Renovation/Pruning
- Land use optimization
- Nurseries
- Fertilization
- Varieties

What is a AAA cluster?
Is a geographical region where:
- The coffee is suitable to be filled into a Nespresso capsule and has a defined profile.
- Has the same global characteristics (altitude, soil, varieties, etc.).
- The coffee production and quality is stable.
- Coffee can be fully traced.
- Farms relate to each other somehow (cooperatives, supplier, associations), etc.

Clusters and farms
- 33,000 farms in 2009
- 40,000 farms by end of 2010
Serving our brands:
The Cocoa Plan Ecuador in action

Managing the supply chain / monitoring critical control points

Purchasing beans with *Arriba* taste

Supporting farmers “*Farmer Connect*”

Linking back to producer through claims towards health, origin, and purity

Winning consumer preferences on 60/40+
The Sustainable Agricultural Initiative at Nestlé
“SAIN” is the enabler to “Farmer Connect”

- Food safety
- Quality assurance
- Regulatory compliance
- Farm income generation
- Crop and yield improvements
- Animal health issues
- Logistic support / Transport
- Water management & irrigation
- Farm management guidance
- Technical training
- Etc.

➔ Rural Development & Water and Agriculture
Markets with “Farmer Connect” activities

- # direct sourcing staff: 1,014
- # supply chain support staff: 17,273
- # farmers supplying directly to Nestlé: 556,600
- # farmers received training: 144,900
- # collection centers: 10,847
- # experimental farm sites: 128
- # crop demonstration plots: 165
- # farmers benefitting from financial assistance: 32,036

Budget for financial assistance: CHF 45.4 Mio

Source: CSV Report 2010
To conclude:

“Farmers Connect” sourcing model contribute to...

- Replicable and consistent quality and food safety
- Predictable timing and volume
- Increased price stability
- Sustainable production
- Farmer loyalty

=> Long-term access to raw materials at competitive prices and specific quality

Ensure safety & quality of raw materials

Secure availability of adequate agricultural raw materials

• Develop farmers & suppliers...
• Building capacity for growth...

Creating Shared Value
Nutrition | Water | Rural Development

All daily Sourcing Activities

Sustainability

Compliance
Thank you!

Hans Jöhr
Corporate Agriculture