AlixPartners

Consumer Products
JUNE 2022

NET ZERO
Syncing ambition with outcomes across the CPG value chain

The global food system is a massive and intricate network that supports lives and livelihoods everywhere in the world. But its complexity and size also lead to an enormous burden on the environment. Food and beverage (F&B) companies are responsible for approximately **one third of global greenhouse gas emissions.** The industry, then, must make substantial changes if it is to achieve the Paris Agreement goal of limiting the increase in the globe's temperature to 1.5 degrees Celsius. This task will be impossible without significant work that spans the industry – including a step change in collaboration along every step of the value chain.

THE PROGRESS WE'VE MADE

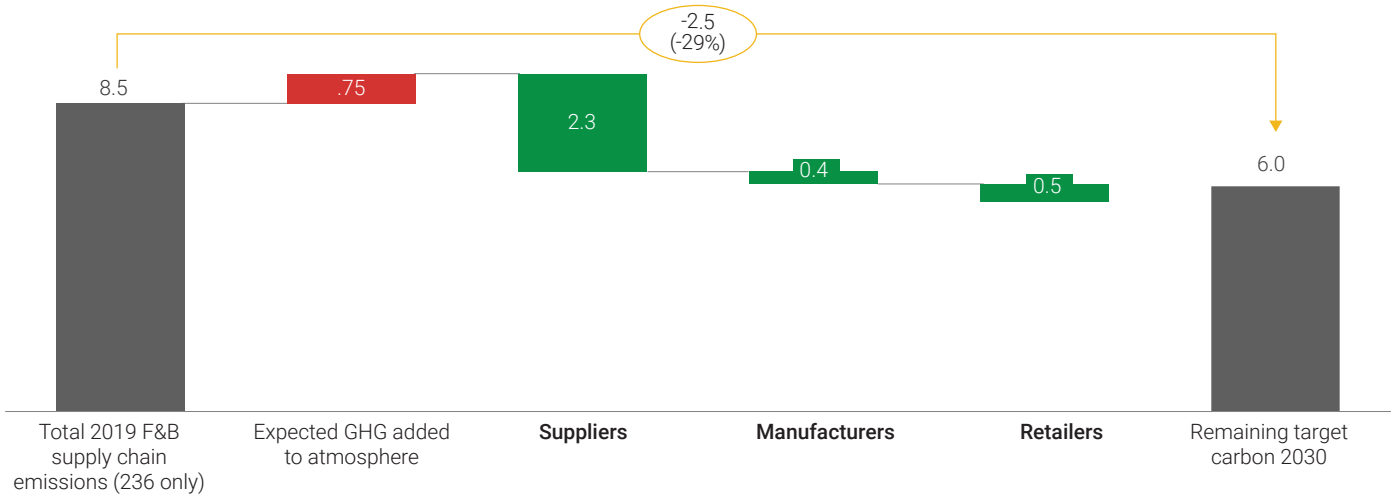
To determine the level of collaboration needed across the value chain for net zero to become a reality, AlixPartners conducted proprietary research into carbon reduction commitments made by 235 of the largest F&B companies in North America and EMEA. Companies came from all parts of the value chain, including suppliers, manufacturers, and food retailers. We also reviewed financial indicators and conducted executive surveys with industry leaders to gain qualitative insight.

Nearly all companies among those we studied have set up programs with reduction commitments and targets. While there was only modest progress immediately following the Paris Agreement in 2015, many of the largest Consumer Packaged Goods (CPG) companies were among the early movers and announced detailed plans as early as 2017 that committed them to reduce millions of metric tons of carbon emissions.

There has also been a much more dramatic acceleration in 'committed carbon' over the last five years. In aggregate, the 235 F&B companies that we studied now have commitments in place to remove a total of more than two billion metric tons of carbon by 2030, which translates to 29% of their 2019 emissions (figure 1).

FIGURE 1: TOP F&B COMPANIES ARE SET TO REMOVE OVER TWO BILLION METRIC TONS, BUT IT'S MODEST PROGRESS

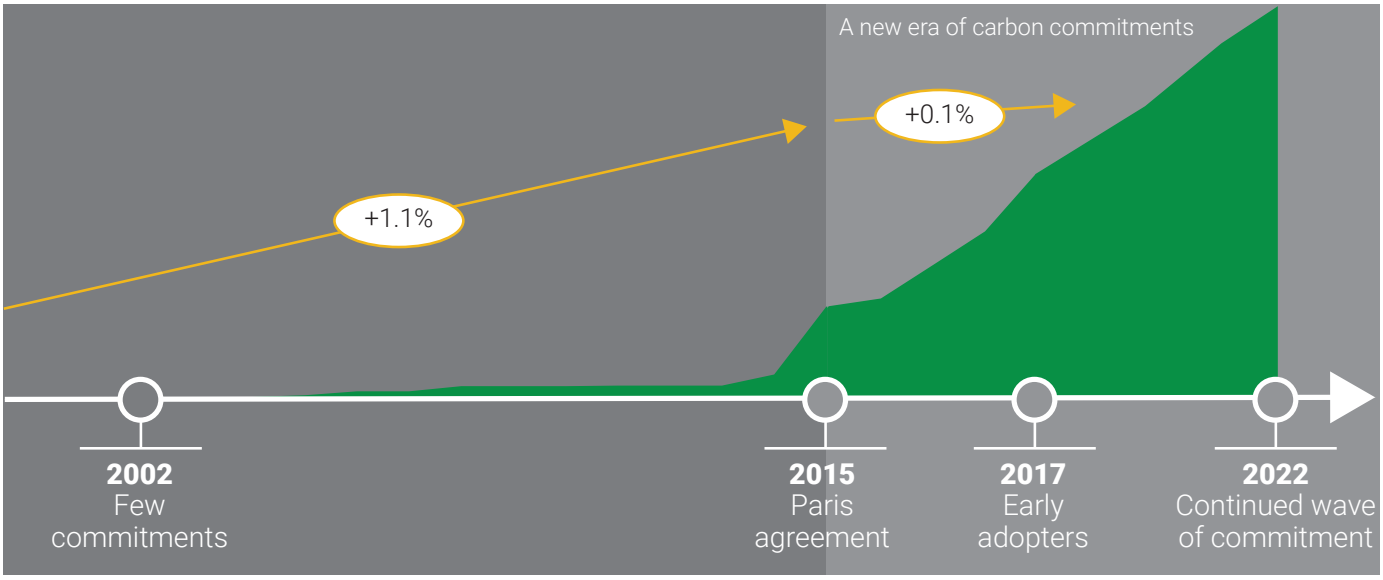
Targeted F&B company carbon removal by sector (billions of metric tons)



Assumptions: only includes the set of companies under analysis, assumes companies will hit stated targets; carbon targets based on relative size of sector's carbon impact and share of the sector the company's revenues represent

This is a reason for optimism. Indeed, we found that the growth in the volume of committed carbon over the years coincides with a decrease in the compound annual growth rate of carbon generated by the F&B industry – with 2015, the year of the Paris Agreement, being the tipping point (figure 2).

FIGURE 2: MOMENTUM IN COMMITTED CARBON



Studied company commitments by baseline year — United Nations food and beverage supply chain1 CO2e

1. Excludes consumer end-use and waste

Although this is a laudable set of aspirations, our research found that that more than six billion metric tons of carbon generated by the 235 companies in our research set has not been committed and does not fall into any publicly stated reduction plans. Alarmingly, we estimate that the status of over 15 billion metric tons of carbon in the F&B value chain is currently unknown.

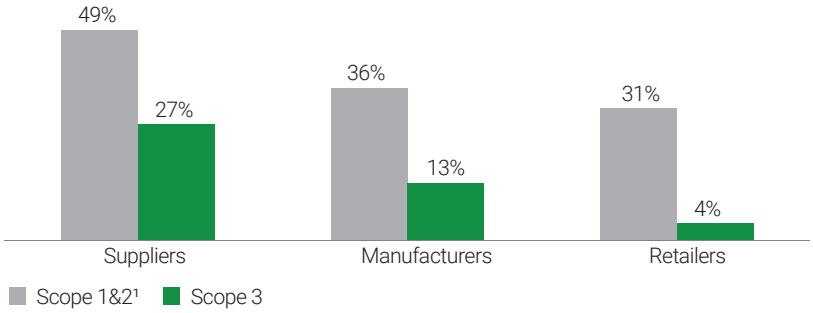
And while the commitment to reduce 29% of the industry's emissions is a major step forward, this will still fall below what is required to meet the Paris Agreement goals. Based on our research and the expected growth of emissions as measured by the Food and Agriculture Organization of the United Nations, the industry needs to reduce its 2019 emissions number by 37.6% by 2030. This means the industry currently has a major shortfall – even if all existing commitments are successfully achieved.

CONFIDENCE LEVELS ACROSS THE VALUE CHAIN

Company executives from suppliers, manufacturers, and retailers indicate they are not confident about meeting their scope 3 goals despite comparatively higher levels of confidence for scopes 1 and 2 emissions (figure 3). Retailers in particular lack confidence and feel an absence of control over their supplier emissions, indicating systemic issues that will demand a fulsome solution with unprecedented levels of collaboration across trading partners.

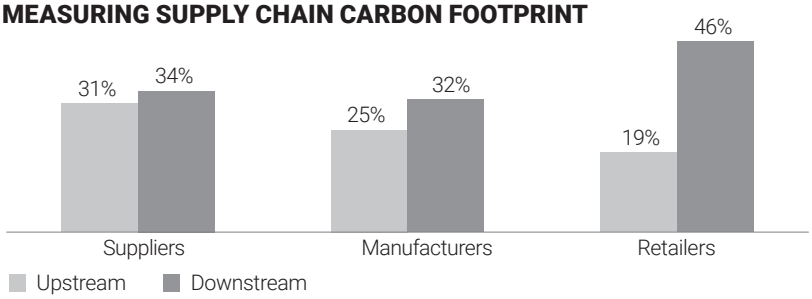
This lack of confidence can be attributed in part to the complexity of measuring carbon emissions up and down the supply chain (figure 4). A lack of standardization in measuring and often even talking about sustainability contributes to this complexity, making it hard for companies to navigate current demands, let alone accelerate reduction.

FIGURE 3: PERCENT WHO ARE VERY CONFIDENT THEIR COMPANY WILL MEET ITS CARBON FOOTPRINT GOALS



1. Average of scopes 1 and 2 responses by location in value chain; Very confident = Selecting 5 out of 5 on a scale of 1 to 5

FIGURE 4: EXECUTIVES WHO FEEL THEY ARE VERY SUCCESSFUL IN MEASURING SUPPLY CHAIN CARBON FOOTPRINT



SCOPE 1 EMISSIONS are those that a company is directly responsible for, such as carbon emitted by **stores, warehouses, and factories owned and run by it**.

SCOPE 2 EMISSIONS are indirectly produced by the company, such as those created by the production of energy purchased by the company to run these stores and factories.

SCOPE 3 EMISSIONS covers all other emissions, including those associated with the entirety of a company's value chain. Scopes 1 and 2 are more easily calculated and managed. Scope 3 emissions can be complex because they include both upstream emissions like those from farming and downstream emissions produced by end-consumers.

Another significant hurdle is that while suppliers and manufacturers are responsible for the most carbon, they do not believe they will be well compensated for reducing it by their upstream customers. Specifically, retailers are highly confident that consumers will pay, manufacturers are somewhat confident retailers will pay, and suppliers are least confident that manufacturers will pay more for sustainably produced inputs (figure 5).

The industry's lack of confidence in cutting carbon becomes especially significant when considering how much of the reduction must come from suppliers. When confidence intervals for each value chain level are layered over carbon targets, even the 29% anticipated reduction by 2030 starts to look tenuous. In percentage terms: requirements made to abide by the Paris Agreement demand a 37.6% reduction; current commitments only add up to 29% reduction; and when adjusted for confidence levels in achieving targets, the forecast changes to only a 25% reduction. Simple math tells us that current ambitions must be increased by at least 50% – and the unmeasured carbon referenced earlier must also be considered as well.

FIGURE 5: DISCONNECTED INCENTIVES
Executives who believe their customers will pay extra for more sustainable products

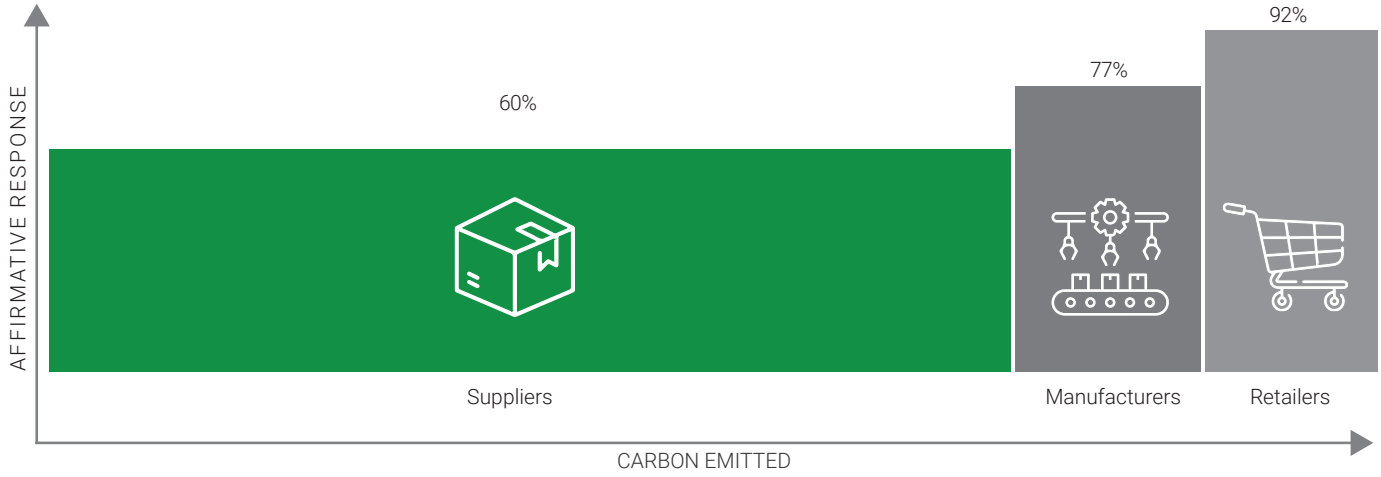
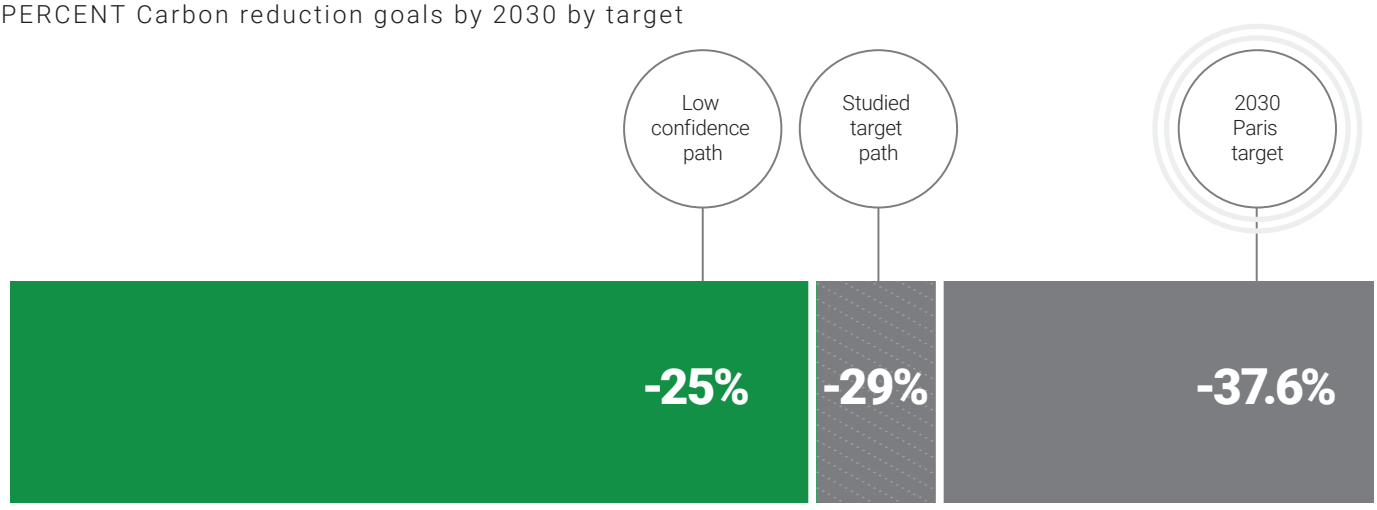


FIGURE 6: GAP TO GOAL ADJUSTED FOR CONFIDENCE LEVELS
PERCENT Carbon reduction goals by 2030 by target



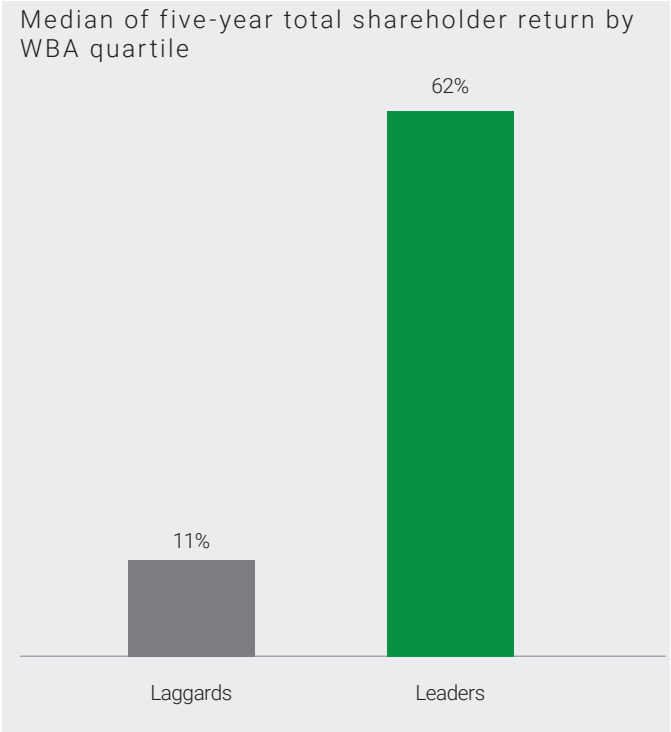
ESG MEANS BUSINESS

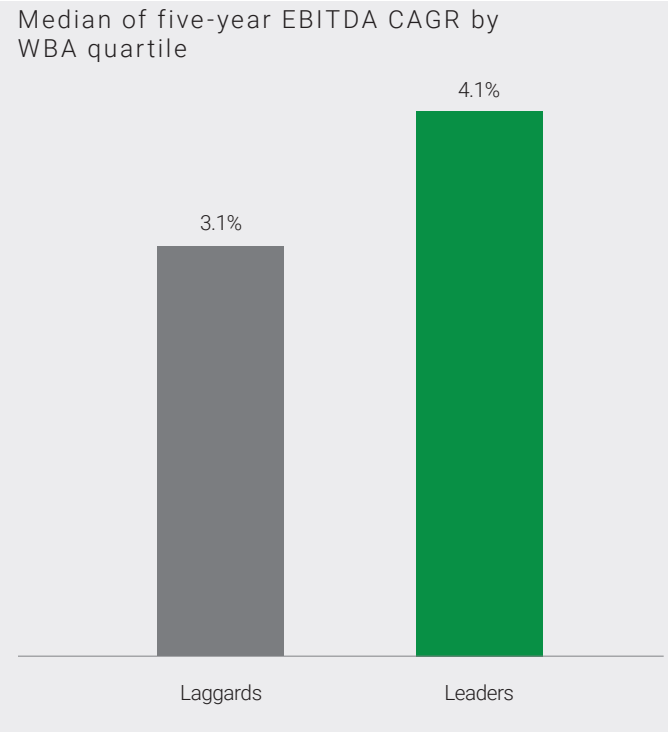
Missing carbon targets may have real financial consequences, and companies that do not act soon may be leaving money on the table. Financial performance over the last five years points to a future that belongs to those firms that are committed to – and successfully achieve – sustainability goals. Our research shows a dramatic gap in total shareholder return and a distinct gap in EBITDA growth between top and bottom performers on environmental, social, and governance (ESG) goals over the long term (figure 7).

Moreover, capital is more expensive for companies that do not perform on ESG matters. According to Dow Jones Sustainability Scores, debt on average costs the lowest ESG performers more than double than it does for the top ESG performers. Sustainable investments, meanwhile, continue to see a flood of funding. More than $1,434 billion was dedicated to sustainable equity funds last year, according to RBC Capital Markets, more than twice the 2019 figure.

The future belongs to those firms that are committed to sustainability goals

FIGURE 7: ESG AND PERFORMANCE IN F&B





Source: AlixPartners Analysis | WBA = World Benchmarking Alliance; five-year period covers 2016-2021

At this point, it's obvious to ask what companies can do. At an operational level, the work required to achieve sustainability goals is not dissimilar to quality and cost improvements, which have now become business as usual and are typically aligned to key performance indicators and a firm's overall strategy.

We recommend three areas upon which to focus:

1

REACH BEYOND

- Extend beyond company boundaries – back to growers and suppliers and forward to consumers; encourage synchronization across trading partners up and down the value chain.
- Bring your suppliers – and your customers – with you on the journey. Understand relative maturity of each trading partner, segment approach accordingly, and implement new incentives to drive behavior change.
- Follow a test-and-learn approach and push best practices across your trading partners. Experimentation and adoption of what works will speed innovation and help drive desired outcomes faster.

A global lifestyle brand committed to reaching net zero by 2030 was seeing its delivery plan start to flounder. But once it turned to its suppliers and really understood their ambitions and the likelihood of making a carbon impact, it reenergized the program. After a trial collaboration built around incentives with a priority group of suppliers, an accelerated delivery plan has now been kicked off.

2

GET PRACTICAL

- Segment the here and now from the possibilities of the future; determine what needs to be done over the next 6, 12, and 24 months, and which line management teams to make accountable.
- Integrate implementation of sustainability efforts into operational roles and assign carbon performance KPIs to individuals and functions just as commercial goals are.
- Empower and enable your operating teams to deliver by embedding emissions data and analytics into daily decision-making.

A global food group had spent years trying to shift away from non-recyclable multilayer pouch packaging. However, the recycled alternatives did not have the necessary shelf-life protection. Taking a fresh look at the product range and streamlining product variants has not only allowed the switch to recycled packing but also created an opportunity to change pricing and improve profitability.

3

SPEED UP AND SCALE

- Don't overstudy the problem. It's too big for anyone to have all the answers and waiting for standardization to fall into place risks unacceptable delays.
- Use your sustainability team to develop policy and incubate innovative solutions while operations teams take accountability for outcomes.
- Adopt an agile, fail-fast mentality on novel approaches to determine what to scale and what to abandon quickly.

A major U.S. food company's team of enthusiastic engineers moved to reduce energy and water usage by driving down variation in usage across dozens of manufacturing sites while installing sensors and building partnerships with local energy providers to drive continuous improvement. The result: material short-term reductions in carbon and water usage and ongoing optimization.

The biggest takeaway: success requires that the industry adopt a collaborative, integrated approach across the value chain – with everyone doing their part to address their slice of the carbon pie.

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METHODOLOGY

AlixPartners conducted proprietary research into carbon reduction commitments made by 235 of the largest food and beverage companies in North America and EMEA. These companies represent one-third of all food and beverage emissions. All companies assessed belong to the group of 350 from the 2021 Food and Agriculture Benchmark published by the World Benchmarking Association. Companies not in North America and Europe were excluded and 10 of the largest packaging companies were added. Our research set included suppliers in agribusiness, produce, meat processing and seafood, dairy, flavors and ingredients, and packaging; manufacturers of packaged foods and beverages; and retailers covering distribution, foodservice, and food retailers. We also reviewed financial indicators and conducted executive surveys with 200 industry leaders (who worked for the studied set of 235 companies) to gain qualitative insight. In all, 105 executives from suppliers were surveyed, 69 executives from manufacturers, and 26 executives from retailers. The executives ranged from managers to those at C-Suite level, and were based across the United States, the United Kingdom, France, Germany, and Switzerland. The survey was carried out April 13-25, 2022.

The industry carbon reduction goal referenced in the research was determined by the Science Based Targets initiative and is the target required for the food and beverage industry as a whole to keep the earth's temperature rise limited to well below 2 degrees, preferably 1.5 degrees Celsius, under the 2015 Paris Agreement.

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ABOUT US

For more than 40 years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges – circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line – a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA – so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done, and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.