



Sustainability Shifts

Future + Food Ireland

20th November 2013

Challenges facing the F+B sector

Deloitte conducted a strategic review with the objective of bringing real insight into likely industry developments, challenges and opportunities over the next eight to ten years.

More than 40 CEOs and senior managers

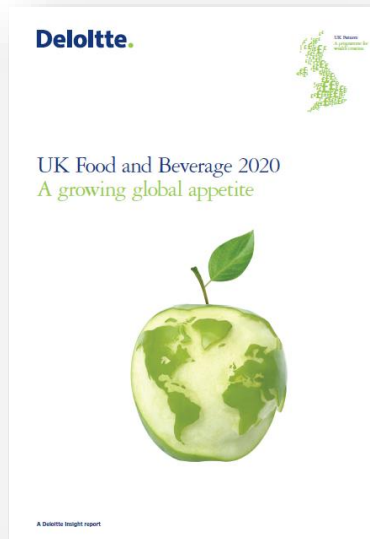
at leading UK and global food and beverage

sector organisations:

- ✓ Retailers
- ✓ Food Service companies
- ✓ Manufacturers / processors
- ✓ Producers

Addressed:

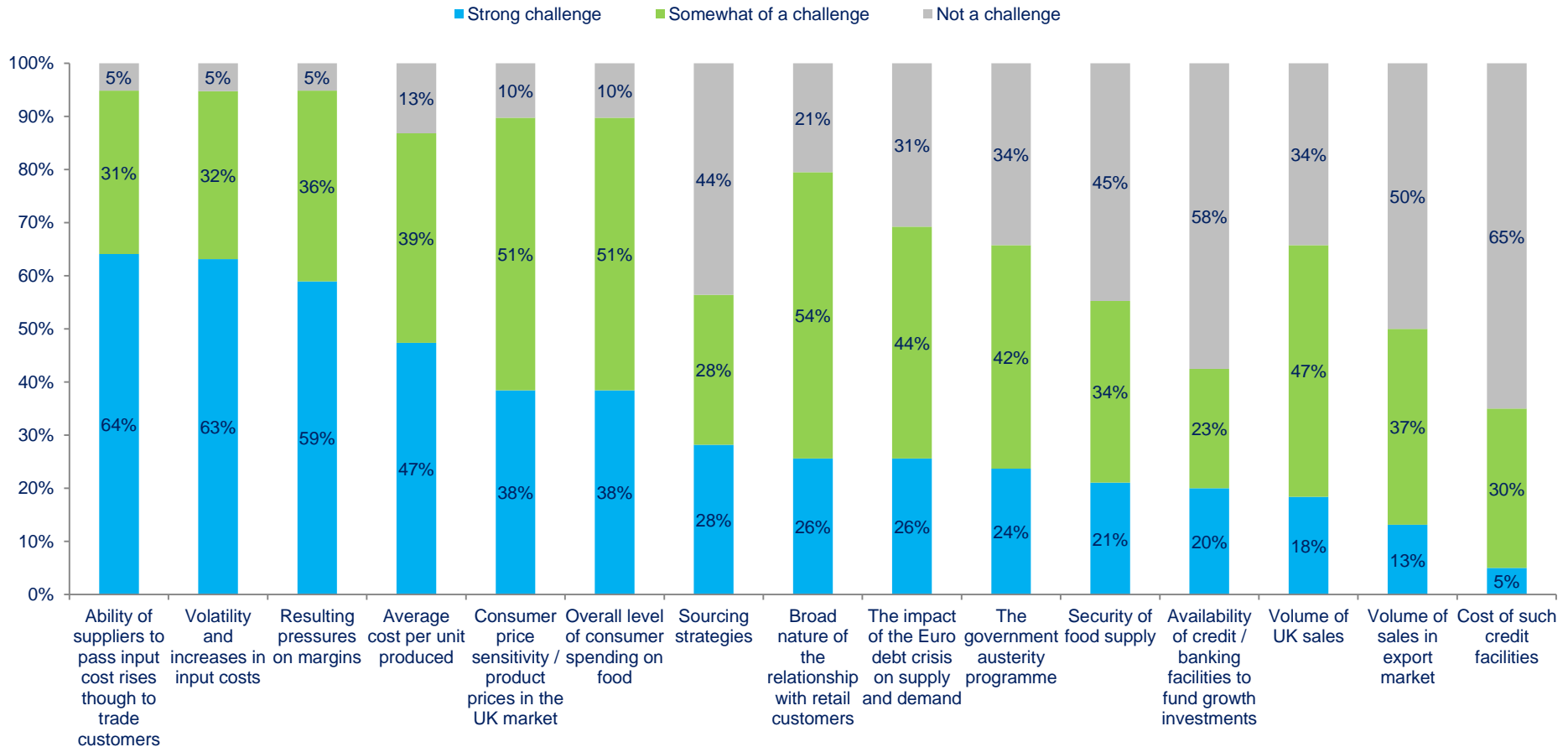
- ✓ Near term issues and choices facing the industry.
- ✓ Scenarios for a 2020 timeframe



Mackies's Ltd	AG Barr
Anglo Beef Processors	Briggs of Burton plc
Avondale Foods Limited	Cranberry Foods Limited
Benson Group	Crossgar Foodservice Limited.
Macphie of Glenbervie	Dunbia
McErlains Bakery	Eurostock Foods Limited
Minor Weir & Willis Ltd	Fairfax Meadow
Moy Park	Gordon and MacPhail
Norbev	Hain Daniels
Premier Bakeries Ireland	Haribo
Robert Wiseman & Sons Limited	Johnson Coffee, Northern Ireland
S&B HERBA FOODS LTD	Just Eat
Scottish Midland	Kerry Foods
Cooperative Society Ltd	Kestrel Foods
SHS Group Limited	Krispy Kreme UK Ltd
Tayto Limited	Linwoods Limited
The Edrington Group	Long Clawson Dairy
Tulip	Mackies's Ltd
United Dairy Farmers	Macphie of Glenbervie
Vion	McErlains Bakery
Wellness Foods Ltd	Minor Weir & Willis Ltd
William Grant & Sons Holdings Ltd	Moy Park
Worldwide Fruit	

Challenges in the next 12 months

To what extent is each of the following likely to be challenging for your business over the next 12 months?



The evolving retail environment

How important do you think the following will be between now and 2020?

Your views

- Growing importance of convenience multi-channel
- Potential for transformational changes in on-line
- Re-thinking of the use of space in-store
- Tougher regulation about waste and recycling
- Focus on improved (joint) forecasting, costs to serve and inventory management

One leading global online player will acquire / establish full service ambient / chilled / frozen distribution capability and will likely in due course become the...



With shifts in shopping patterns, leading retailers will rethink the way they use space in their larger format stores towards more of a service based...



Waste regulations & targets (emission and landfill) will drive retailers to take further actions in reducing waste and enforcing recycling on both consumers...



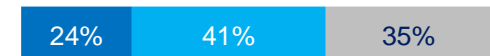
Multichannel grocery retail will be mainstream with all of the UK's major retailers moving to multichannel models



Only convenience stores, hypermarkets and online will show overall growth in terms of food sales



There will be growth in collaboration between food/CPG manufacturers through the creation and exploitation of new online grocery market places that...



Consistent with the continuing growth of convenience and service, emerging store formats in the high street will offer more than the conventional convenience...



- Very important
- Somewhat important
- Neither important nor not important
- Somewhat not important
- Not at all important

The role of government

How important do you think the following will be between now and 2020?

Your views

- Burden of increased regulatory complexity
- Proactivity in engaging with regulators
- Role of the industry in encouraging healthy eating

The food and beverage industry will have to become more proactive in engaging with regulators to guide the development of good regulatory frameworks



There will be considerable additional compliance requirements and complexity for the industry in areas such as ingredients, packaging and labelling



Engaging with consumers responsibly will be core to business models and practices. Food retailing and manufacturing businesses will be expected to play a proactive role alongside governments and regulators in...



- Very important
- Somewhat important
- Neither important nor not important
- Somewhat not important
- Not at all important

The changing retail environment:

where customers connect to brand

Evolving Role of the Store

The role of the store is shifting from a transactional model to an experiential one, in which customers have a personalized experience with the brand and a meaningful interaction with sales associates

Retail executives agree that in 5 years, the store will be primarily to:



Source: Deloitte's Store 3.0 Survey: The Next Evolution, September 2011

The Rise of Mobile:

- 41% of shoppers have checked competitors' prices on their smart phones while in a retail store.¹
- Shoppers who use their mobile devices in the store are 6% more likely to make an in-store purchase.²
- In mid-2010, only 12% of the top 500 U.S. online retailers had websites compatible with mobile browsers, while 7% had apps.³

1. IHL Group, November 2010
2. "State of Industry Report," Chainstoreage.com, September 2010
3. Acquity Group Mobile Commerce Audit, June 2010

Sainsbury's Online is expanding rapidly and is now the second largest online grocer in the UK with an annualised turnover of £750m. 50% of the revenues of some urban stores are from online sales.

Interactive POS Solutions

Digital ordering and payment increase speed and flexibility of customer experience

Tesco in South Korea opened a virtual grocery store in a subway station, where users shop using smartphones



► Pizza Express allows mobile app bill payment in-store with emailed receipts and payment confirmation sent to restaurant

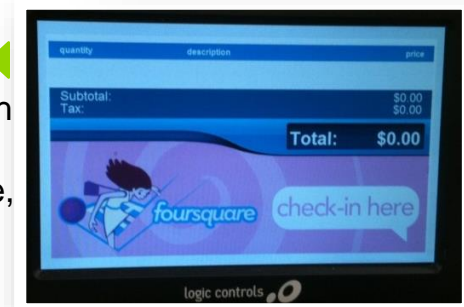
Product vending increases product reach, ease of purchase, and reduces personnel needs

Goldsmiths (UK) uses watch vending machines for purchases and Apple places Apple products in vending machines in partner locations



POS Social Media Integration entertains customers at check-out and creates social media buzz for retailers

Tasti D-Lite engages consumers at the POS with interactive cash registers integrated with Foursquare, Twitter, and other social media outlets



The Business Case is Clear

Sustainability does pay: there are both short and long term financial benefits of reducing your environmental impacts and future proofing your portfolio.

Operational Costs

- Reduce energy and running costs, and further reduce exposure to increasing resource costs

Capital Costs

- Pathway to reduce capital costs through engagement with the supply chain on low carbon materials

Capital Value

- Increase the long term 'value' of the portfolio through better buildings

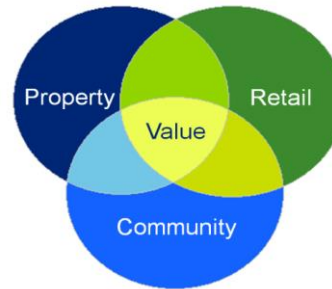
Building Regulations

- Be ready for Zero Carbon building regulations – create a bank of carbon credits ensuring zero carbon is cost effective

Kingfisher : net positive

‘ Better means creating a net positive impact: our business will put back more than it takes out ‘

Ian Cheshire, Group CEO



“Without action, our energy costs could be £1.2 billion between now and 2020 ”

Kingfisher Group Property Strategy, 2011



TIMBER



ENERGY



INNOVATION



COMMUNITIES

The green property strategy targets £350m energy cost saving over The next ten years

New Models - *Triple Zero* retail model (UK Food Retailer)

Triple Zero is a new store that will re-define Retail and set a leading food retailer on a path of sustainability leadership. The three areas currently targeted are:



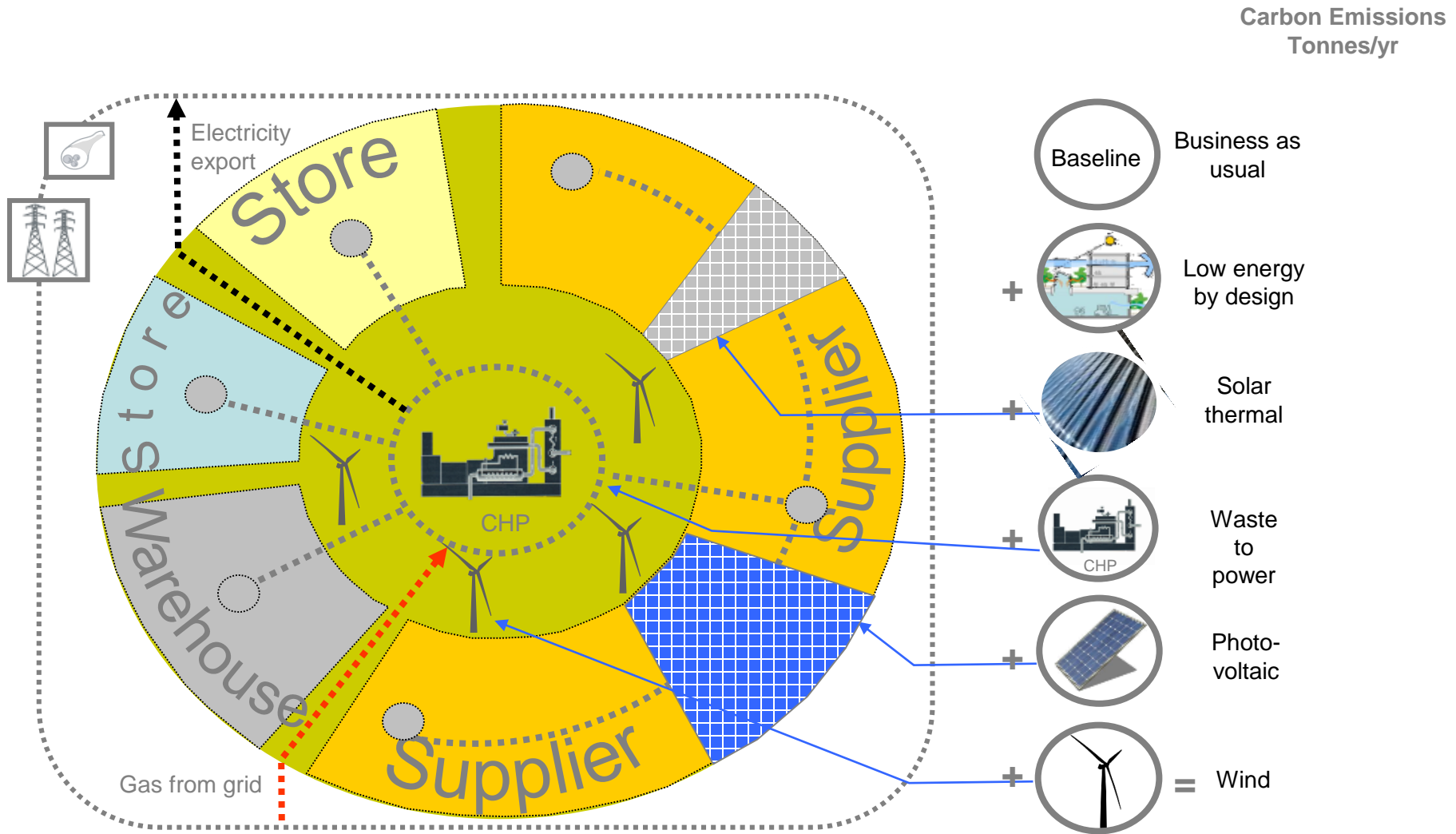
Zero
Operational
Carbon

Zero
Embodied
Carbon

Zero
Waste

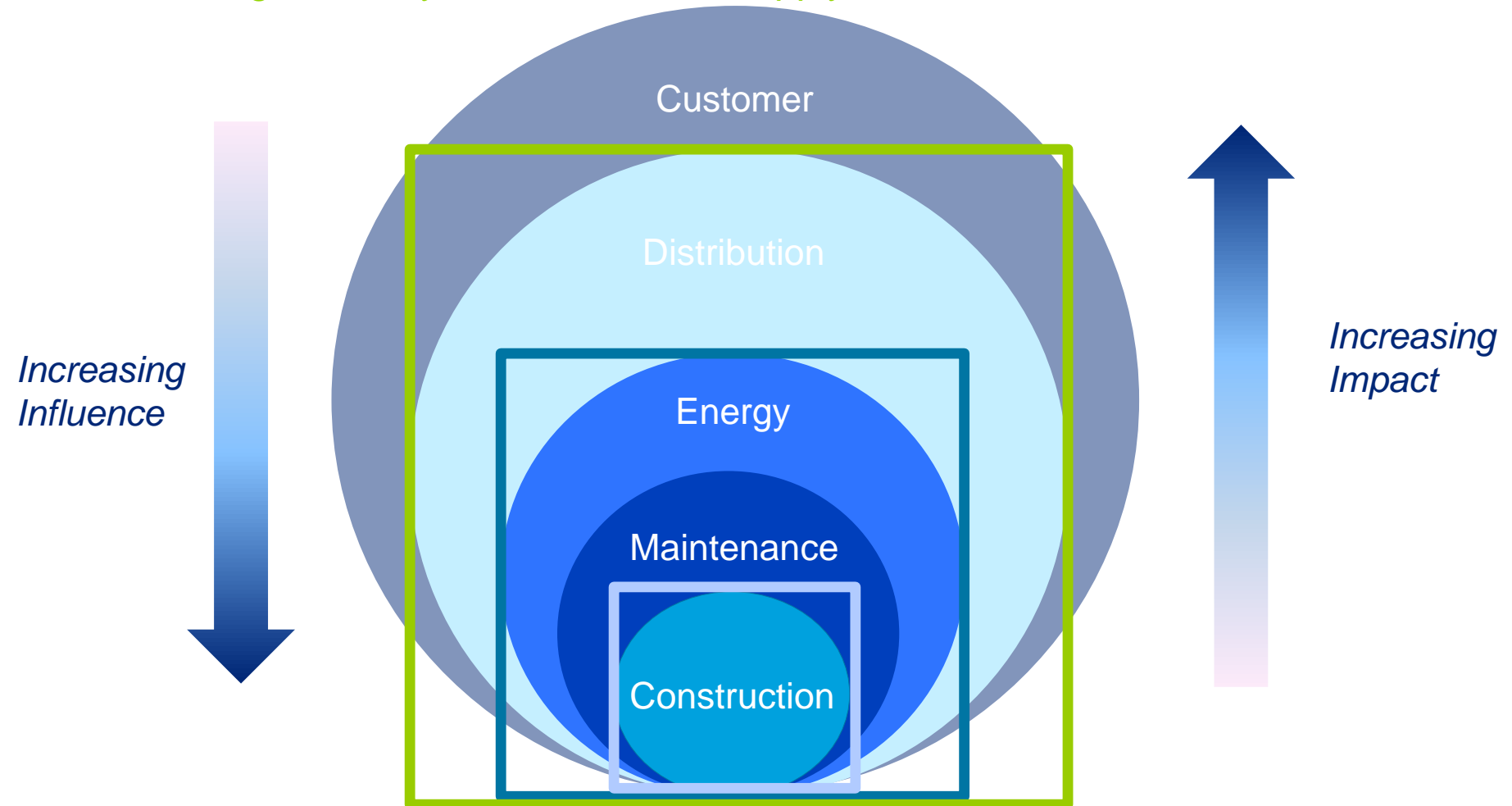
An integrated, eco-system approach to delivering sustainability

An integrated supply cluster would pool renewable energy from several local sources to satisfy the demand of sites within the cluster.

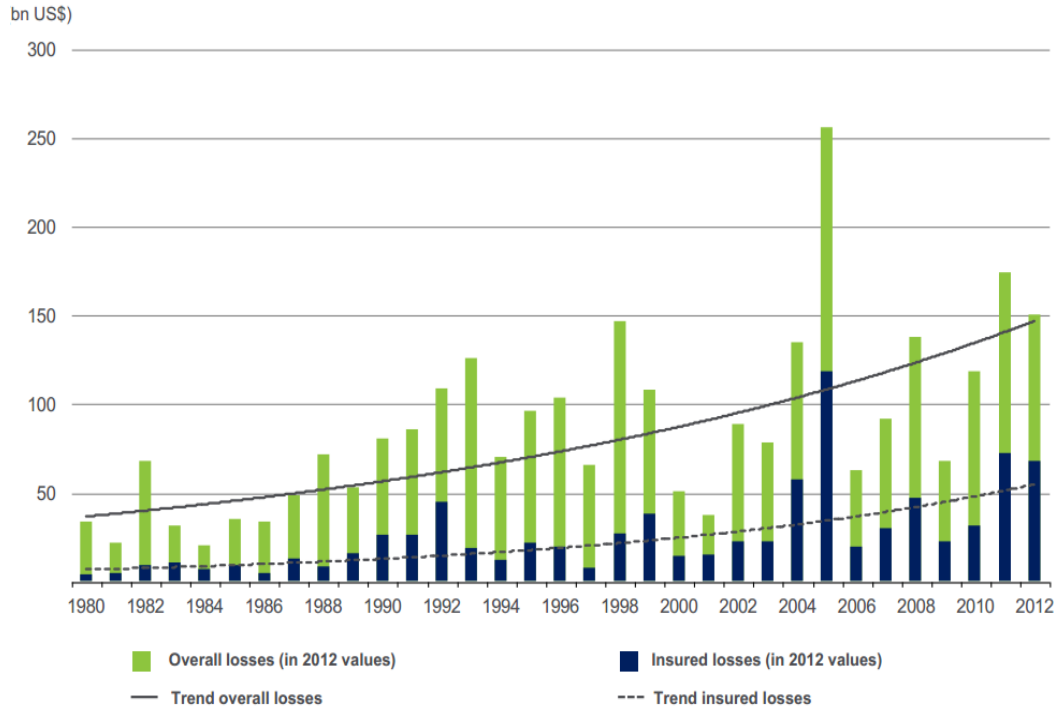


But it's about more than just energy...

Retailer's have more influence over their portfolio and operations, although customers have more of an environmental impact – retailers are starting to think in an integrated way about their total supply chain



Managing costs and risk



Total insurance losses and impact of extreme weather events



Marks & Spencer, Ecclesall Road, Sheffield, UK

M&S Plan A Corporate Climate Change Commitments

Carbon neutral

Aiming to make all our UK and Republic of Ireland operations carbon neutral.



Green electricity

Sourcing or generating 100% 'green' (renewable) electricity for M&S stores in the UK and Republic of Ireland.



Energy efficiency (stores)

Reducing the amount of energy we use in our stores by 25% per square foot of floor space.



Green stores

Opened three 'green' concept stores in 2007, plan to trial five Energy Stores and open three Sustainability Learning Stores.



BREEAM

All new stores to achieve BREEAM 'excellent' rating and all other stores to be assessed against BREEAM rating system.



On-site renewables

Having 20% on-site energy generation from renewables in all new builds where practicable.



M+S: Designing in climate risk resilience



M+S Pilot Store, Glanford Retail Park : Part of Deloitte led TSB research programme

Site Layout Simons 2011

Evaluating cost benefits of climate resilience

Adaptation Route	Cost
Baseline	-
Route 1 Design to Avoid	£3.20m
Route 2 – Design for Recovery	£0.20m
Route 3 – Design for Resilience	£0.21m

Estimated damage cost per event		
15mm	150mm	450mm
£68k	£2.3m	£3.7m
-	£30k	£30k
-	£383k	£2.8m
£40k	£1.37m	£2.3m

Supply chain risk and resilience

Global complexity

The rebalancing of the global economy towards the leading developing economies will have a profound impact on food production and sourcing

- 1980-2009: global middle class grew by around 700 million people to 1.8 billion
- Over the next 20 years it is likely to grow by an additional three billion to nearly 5 billion¹
- Rapid growth is turning emerging economies into major food importers
- By 2030 the world will need 50% more food and energy and 30% more water²
- Increasing demand for biofuels is putting further pressures on resources

Sources:

¹ OECD, January 2010

² FAO, August 2012

November 21, 2012 1:01 am

Enough to go round but millions still starve

By Louise Lucas



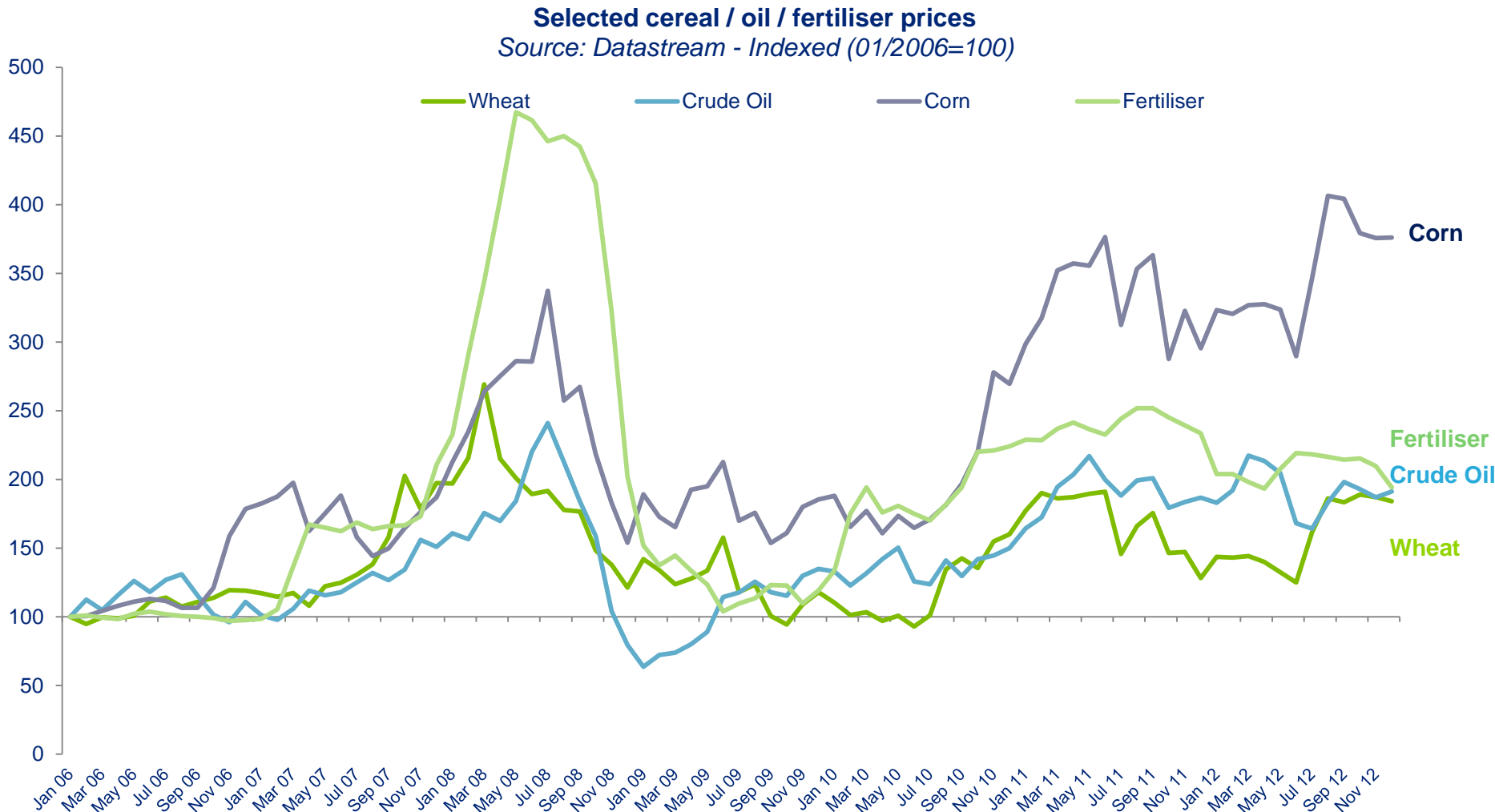
Energy debate: corn being harvested for biofuels in Missouri. Critics say such use keeps poor people hungry

Food has never been such a global issue. Some 1.5bn overweight and obese adults share the planet with 870m chronically hungry people, and governments are grappling with the same challenges: how to produce more food from less land, slash waste and reduce price volatility, while battling erratic climate patterns.

Corn being harvested for biofuels in Missouri. Many critic the use of food crops for renewable fuels

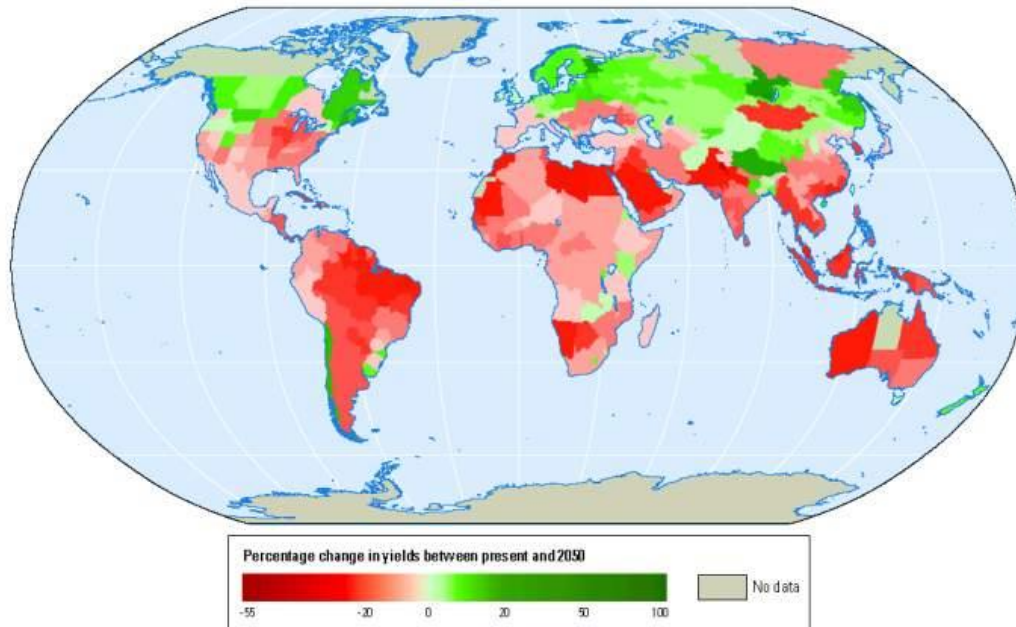
Global rise of commodity prices

Some of the worst weather in years is driving the third major rally in global grain and oilseed prices in just five years



What is the business value of climate knowledge ?

Map 1 Climate change will depress agricultural yields in most countries in 2050, given current agricultural practices and crop varieties



1. Identify new market opportunities different crops, varieties, quality characteristics
1. Quantify impacts and vulnerability of crop production to climate change threats to existing centres of production, volatility of supply
3. Guide investments in infrastructure irrigation, post-harvest storage, processing facilities
4. Inform supply-chain decisions develop different geographies

Broad-scale impacts on crop production

Potential change in crop yield World Bank Development Report 2010

Managing supply chain risks

Consistent Risk Evaluation to Apply to Three Key Areas

① STRATEGIC PLANNING:

Are our factories in the right places?

Factors to consider in trade offs between business continuity, cost to serve and risks at a regional and country level:

- Business climate + risk: Ease of Doing Business
- Proximity to markets: customers + suppliers
- Environment + resources: access to energy + water
- Market intelligence: 'white space planning'
- Taxes, tariffs + incentives
- Regulatory + policy environment

② FACTORY + SITE CONSIDERATIONS:

Do we have access to the right resources?

Factors affecting factory site selection and asset management:

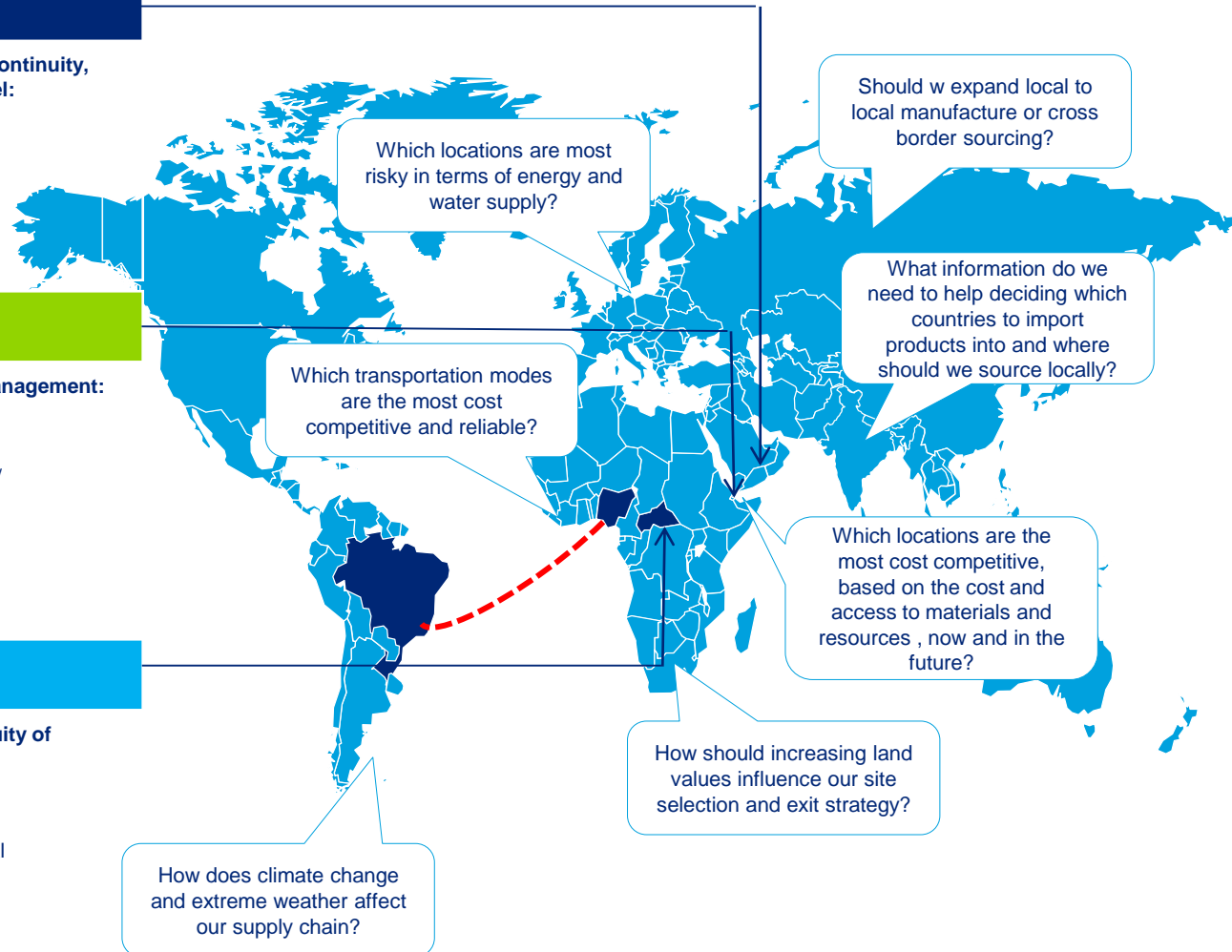
- Utilities + site services
- Access to labour markets + workforce issues
- Security: natural disasters/ weather/ political security/ nationalisation/ war/ crime/ H&S/ road traffic
- Land use + adjacencies
- Urbanisation impacts
- Production growth capacities
- Permits, licenses and consents

③ OPERATIONAL EFFECTIVENESS:

Do we understand all the key risks?

Factors affecting the costs of operations and continuity of supply:

- Inbound logistics + alternative sourcing
- Climate + weather resilience
- Critical National Infrastructure: national/ regional/local
- Bribery + corruption: customs
- Tariffs + incentives
- Supply chain mapping
- Go to market strategies



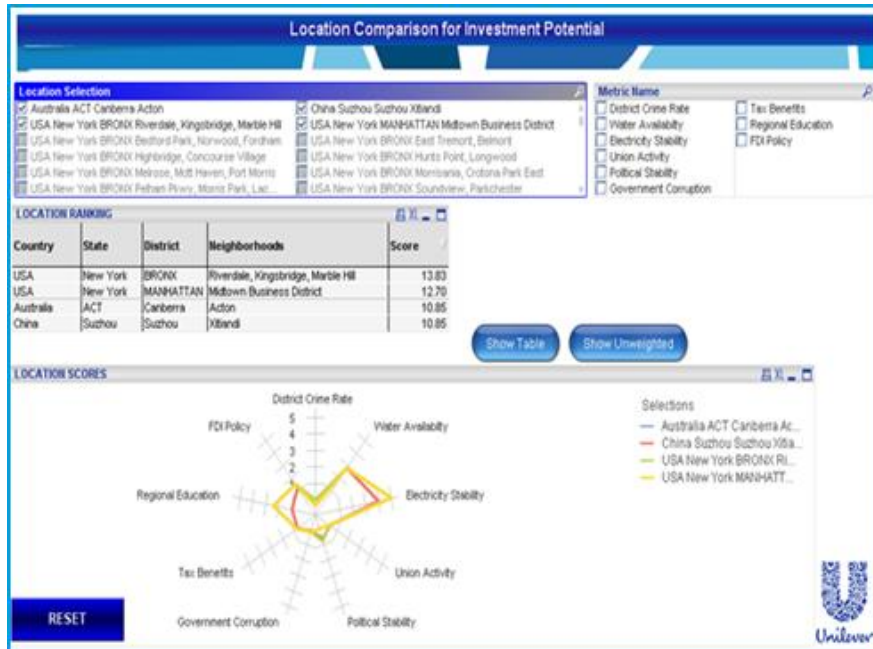
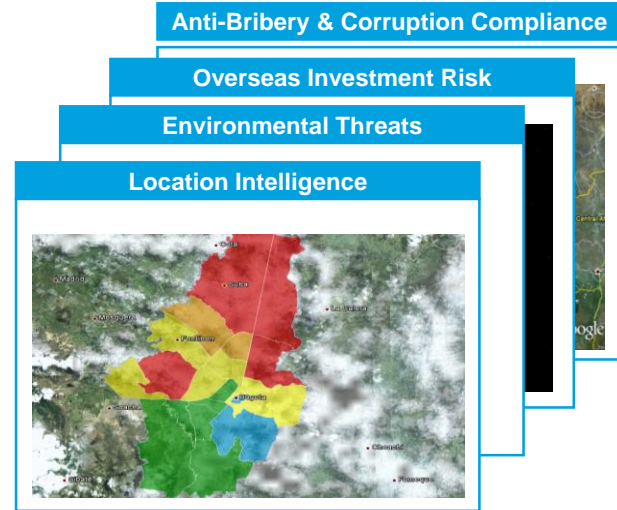
Deloitte's geospatial risk model - sHORUS

Visualising Location Intelligence for Factory Installations

OVERVIEW

Horus is a Deloitte proprietary Geographic Information System (GIS) application that enables organisations to **visually assess** the Likelihood (Vulnerability, Threat and Target Attractiveness) of targeted, environmental and situational business risks on a single, integrated platform. This empowers risk stakeholders to take key decisions based on enhanced situational awareness and visualisation of simultaneous data sets.

Horus outputs are tailored to client requirements. ROPs can be included in written GRA reports or delivered as stand-alone KMZ/KML files, augmented by dashboard reporting (see below), for inclusion within investment risk appraisals or as part of options testing for national, regional, district or site level appraisals.



sHorus Investment Applications

- Investment Decision-Making**
 Enables Unilever to analyse and assess strategic sites by visualising risk intelligence
- Asset Management : Data Aggregation and Mining**
 Enables Unilever to collate and consume proprietary and external GIS data in/from a sole repository, adding value across the business
- Horizon Scanning**
 Enables Unilever to track the velocity and trajectory of identified or emerging risks and assess cost effectiveness and proportionality of controls

Radical disclosure

Communication

We need to learn a new language to communicate effectively



100w



$\times 10$

1Kwh



13km



1500cals

Multi-communication channels

Social media trends are to preferences and value based opinion forming



facebook google twitter

http://www.

wikipedia myspace

Communication of purpose

How well are we communicating our core business contribution to society?



‘ Getting a better understanding of the source of natural goods + services Puma relies on and the declining availability of the basis of these resources needed for the growth Will help ensure that Puma builds a more resilient business ‘

Jochen Zeitz CEO Puma

**€94m or 3% Gross Sales
or 46% Net earnings £202m**

INTEGRATED REPORTING <IR>

“The FASB applauds the IIRC’s leadership in promoting a comprehensive corporate reporting system that integrates financial performance reporting with information about environmental, social, and governance performance.”

Leslie Seidman - Chairman, Financial Accounting Standards Board



*Re-*imagining Business



Thank you for your time.

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