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Responsible Sourcing for Healthy Eating



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# SUSTAINABLE SOURCING TO INNOVATE A PRIVATE BRAND

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## Responsible Sourcing for Healthy Eating

### ABSTRACT

To encourage private brands to undertake sustainable sourcing, we examine widely-held myths, risks, and business opportunities. We introduce the Crawl-Walk-Run approach and outline actionable steps to take along the way. It is most important to establish your team of private brand stewards and develop an approachable, believable and doable private brand sustainable sourcing strategy. There are sustainable sourcing opportunities to address in areas such as packaging, supplier diversity, food waste, and supply chain animal welfare. Develop sustainable sourcing strategies to give your private brand products the “AND” factor, so customers feel they are getting more for their money. Communicate your efforts effectively to develop LOHAS (Lifestyle of Health and Sustainability) and Millennial loyalty and dollars to the value equation reflected in your private brand sustainable sourcing strategy. Contact Janice Neitzel at [Janice@SustSolutions.com](mailto:Janice@SustSolutions.com) or 708.926.5569 to learn more.

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### INTRODUCTION

If you are just beginning the journey into sustainable sourcing or are considering if it makes sense for your private brand, there are some things you should know and contemplate as you explore the idea.

According to the 2014 US Store Brands State of the Industry research study,<sup>1</sup> retailer and wholesaler respondents selected ‘differentiation’ and ‘building loyalty to their stores’ as the most important roles that private brands play, the same as in 2013.

As US national brands continue to struggle with lower growth year to year, private brands’ sales in all major retail channels continue their upward trend, setting new records across the board for annual revenue, according to the Private Label Manufacturers Association (PLMA).<sup>2</sup> In 2014, US store brands accounted for nearly US\$3bn in incremental sales overall, an increase of 2.5 percent over the previous year and more than twice the percentage gain that was recorded by national brands.

In the USA, consumer awareness, the demand for more transparency and continued compression on margins are providing an opportunity for private brand owners and the industry to look at value and innovation through a different lens. Sustainable sourcing, generally defined as using a resource so that it is not depleted or permanently damaged, is one way to differentiate your private brand from the others and also bring additional value to the consumer. When developing your brand strategy, it is crucial that it be approachable, believable and doable. It is important that your brand is communicated properly to the customer in a manner that consistently meets expectations.



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### SHATTERING THE MYTHS

First, let us dispel some of the myths regarding the cost of adding a sustainable sourcing strategy to your private brand. How many of you are thinking, this is going to drive up costs significantly, or I need to hire a team to manage it, or I need to have a comprehensive approach to even start including sustainability into my business model? The reality is that sustainable sourcing may not drive down costs; you will need CEO support and your existing team needs to have the same sustainable sourcing goals. There are, however, things you can do today to embrace sustainability within your private brand program that adds little to no cost, utilizes your current staff resources, and puts you on the path towards working more efficiently with your trading partners. In addition, taking steps towards sustainable sourcing wins praise from NGO activists.

Sustainable sourcing will strengthen your brand and build a sustainably-savvy customer base which is highly loyal to its value equation. Your goal is to earn the loyalty of these customers as they discover the values inherent in your sustainably sourced private brand. So, in addition to being viewed as socially responsible, loyalty of the sustainably-savvy customer is the best reason to integrate sustainable sourcing into your private brand strategy.

### RISKS

Let us consider the risks of sustainable sourcing for private brands. It is likely that you have heard the term 'greenwashing'. It is the term used for over-promising and under-delivering on the sustainability attributes of a product or service. The overuse of the word 'natural' on labelling is a good example. We have all heard the problems with putting the word 'natural' on your packaging.

The USDA and FDA definitions<sup>3</sup> are ambiguous at best, and every



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natural private brand has a different definition. Due to the lack of a clear definition, lawyers have focused on packaging that is considered to be misleading to consumers due to the loose definition of ‘natural.’ If challenged, you are put in the position of having to stop selling the product or of redesigning the packaging to remove the wording. You may have a natural private brand program, and it is fine to refer to it that way internally. I caution you, however, about using the word ‘natural’ on your packaging and, instead, use measurable, fact-based words in order to avoid risk.

A newer but similar risk in product labelling is known as ‘humane-washing’. The word ‘humane’ can be interpreted in different ways, resulting in lawsuits challenging labels showing ‘happy cows’, ‘humanely raised pigs’ or pictures of idyllic farms.

Understand the risks and use fact-based words in marketing, but do not avoid sustainable sourcing. It is a newer, less charted territory where rules and regulations are still being developed, but the business opportunities are tremendous.

In 1989, a UK-based publisher coined the new term ‘ethical consumer’.<sup>4</sup> This was done by creating and publishing ‘ratings tables’ that award companies negative scores based on these sustainability categories. Today, in the USA, Bloomberg and Reuters provide environmental, social and governance ratings directly to the financial data screens of hundreds of thousands of stock market traders. Consumer and social media are focusing on sustainable sourcing issues such as the humane treatment of animals, farming practices, packaging and recycling, and how the product arrives at the store. It is clear that actionable ideas are key to starting to incorporate sustainable sourcing into your private brand strategy.

### TARGET MARKETS

There are two primary segments of the sustainably-savvy US



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customer base: Millennials and the more mature LOHAS (Lifestyle of Health and Sustainability) demographic. In 2012, Forbes said that the LOHAS market segment is growing into a US\$300bn+ business opportunity.<sup>5</sup> LOHAS is comprised of upscale, belief-driven consumers who are committed to ethical spending on products meeting its value equation and who do not switch brands to save money. Sustainably sourced private brand products will attract LOHAS dollars. Millennials are the new majority demographic classification and soon to be the largest dollar. This segment is very aware and supportive of a sustainable lifestyle. They are not specifically loyal to national brands, but are fiercely loyal to brands that meet their value equation. It should be the goal of a private brand to have Millennials and LOHAS becoming its customers for life.

When taking on a project of this magnitude, you may want to consider taking the 'crawl-walk-run' approach.

### WHERE TO BEGIN: CRAWL

To begin, focus on quick wins like adding recycling instructions to your packaging as you update current labels or develop new packaging. According to National Geographic's Greendex, the USA makes up 5 percent of the world's population and creates half of the world's garbage.<sup>6</sup> Adding clear recycling instructions will make your private brand product remain relevant to current customers while appealing to new sustainably-savvy customers.

Another quick win to crawl is to get your organization involved in recycling. Partner with local waste management companies on recycling programs. There are organizations that will help you implement various recycling programs and, at the same time, these programs may reduce costs or even generate revenue.

Partner with local food bank or organizations like Feeding America in order to reduce food waste from overruns, short coded product or damaged product. In the USA, 40 per cent of all food sold



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ends up in a landfill. Let's talk about donating that food. While some private brand owners remain hesitant about sending their private brand to food banks because of liability or consumer concern issues, there is US legislation offering brand owners liability protection in the Bill Emerson Good Samaritan Act.

What about meat donations? A recent USDA change has made this easier. Food banks have the ability and are required to re-label any missing ingredients or unlabelled allergens. Food banks can receive large quantities of animal proteins and will follow the same regulated safe handling protocols to repack product into smaller quantities to be distributed to clients.

As with all sustainability initiatives, it is very important to let your customers know about your programs and give them stories and examples of how these programs are helping local communities. Many food banks can help with promotions and are eager to share information on your partnerships with the press or online with social media. For you, there are tax benefits to donating, reduced trash costs and, of course, the goodwill factor that identifies your brand as helping feed the hungry.

Another initiative to begin in the crawl phase is to request third-party animal welfare audit results from your animal protein suppliers and manufacturers. Most suppliers already undergo third-party processing plant inspections using the North American Meat Institute (NAMI) animal welfare audit designed by Dr Temple Grandin. It may be more difficult to obtain on-farm animal welfare audits, but it is important to start the discussion by asking for them so your suppliers know your company wants to begin receiving the information on a regular basis.

Once you have established this audit request process, you will need to ensure audit compliance reviews and corrective action follow-up. It is crucial to let your suppliers know that if there are audit deficiencies, you expect them to identify these and take corrective



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action for deficiencies, even if the audit is passed. Communicating expectations to suppliers is key to ensuring a smooth process. Sustainable Solutions Group ([www.SustSolutions.com](http://www.SustSolutions.com)) has this program in place and guides large retailers and foodservice companies in making this audit review process thorough and efficient.

Begin to actively seek supplier diversity in RFPs/RFQs so that private brand manufacturer diversity can be part of your socially responsible sustainable sourcing platform. If you are not doing this already, begin by buying at least one product from minority-owned or women-owned manufacturers. It may be less-than-a-truckload, but it does not require you to do any more than award the business, while providing an opportunity to innovate your private brand.

Last but not least, make sure you begin promoting these efforts through social media, POS materials in-store and messaging on your website.

### WALK

Now that you have established a track record with some successful sustainable sourcing initiatives, you will find it easier to get the full buy-in from other vital corporate leaders and establish in-store green champions. Formally develop your corporate team of VPs, directors and project managers from all relevant departments (perishables, marketing, legal, food safety, CSR, etc.) as private brand stewards to develop your private brand sourcing strategy. Incentivize in-store green champions by providing special T-shirts and apparel to identify and differentiate them and by including them in monthly private brand steward meetings to ensure the goals of your sustainable sourcing strategy are being met and measured. Once you start walking down this road, it is key to have your sustainable sourcing values consistent throughout the private brand. Sustainably-savvy customers finding criteria in your private brand in one area of the store will



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expect similar criteria to be met in private brand products throughout the store. No customer enjoys being confused or misled.

Consumers are exploring healthy alternatives when shopping, in response to rising obesity and growing childhood diabetes rates. You may find a slight increase in the cost of sustainable sourcing. But as you spread that out, the cost increase may, in fact, only be pennies per unit while you take advantage of the opportunity to greatly expand your customer base.

If you already have a natural/organic private brand, this is an easy way to test consumer acceptance of more sustainably sourced products. You can begin offering a stock-keeping unit (SKU) of fair-trade coffee, a sustainably sourced paper product, or cage-free eggs. In the crawl phase, we discussed recycling. When walking, now is a good time to challenge your manufacturers to reduce packaging.

To develop your sustainable sourcing strategy as you begin to walk, look for ways to incorporate a slight formula variation in SKUs. Instead of using conventional cocoa, switch to fair-trade cocoa. Remove palm oil from the formula, or use sustainable sources of palm oil. Identify and reduce chemicals of concern or artificial ingredients.

As you develop new products, look for sustainable sourcing opportunities to give your product the 'AND' factor. Who does not want to feel like they got more for their money? For your SKU of private brand omega 3 eggs... 'AND' make them cage free! Beef raised without antibiotics, a term that is becoming mainstream, 'AND' now grass-fed. Paper products made from post-consumer recycled product 'AND' Rainforest Alliance Certified. Health and beauty private brand products that are manufactured in recycled plastic packaging 'AND' Leaping Bunny Certified.

Sometimes lack of supply availability does not allow you to put a policy in place for what you would like to source. For example, take cage-free eggs and responsibly sourced palm oil as ingredients for which there may not be enough supply. Your team of private brand



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stewards may decide to develop positions, in lieu of policies, due to inconsistent or lack of supply. Realize that suppliers need demand commitments. For example, there must be demand for an entire barn's worth of cage-free eggs in order for a supplier to convert a barn from cages to cage-free. Your suppliers' understanding of your position will increase the availability of sustainable supply over time as long as you make clear to the suppliers that you will use sustainably sourced ingredients whenever possible. Communication is important to make sure the positions of your private brand strategy are known to your suppliers and to the industry. Having inconsistent sustainability attributes in your private brand products many mean that you will not be able to label or market the sustainable attributes right away, but as your positions are known and as you consistently buy the sustainably sourced ingredients, supply will increase so that you can eventually promote the sustainably sourced attributes.

More and more consumers are interested in transparency, wanting to know where their food comes from, which requires traceability. Work with your suppliers to ensure they have and can share 'chain of custody' and traceability documents. A chain of custody document is the chronological documentation of a product or ingredient through the supply chain. The paper products industry, through the sustainable forestry initiative, is practicing this today. But as an industry we still have a lot of work to do to record and make readily available product ingredient traceability information to brand owners and consumers. It is important to keep challenging your manufacturers and suppliers and to raise the bar on packaging and ingredient standards as well as supply chain efficiency.

Where you can, promote your efforts through social media, POS materials in-store and messaging on your website.



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### RUN

In the last stage, you will be running. You will be scaling the program, working with your supplier partners to improve formulations, innovating new formulations and executing packaging initiatives. You will find these improvements will produce meaningful and loyalty-building conversations with both your current and new customers now buying your products.

In the crawl, you put a recycling program in place. In the walk, you began reducing packaging. Now, to run, you will look at the materials making up your packaging.

There are several options. You can provide packaging using recycled content. At a minimum, you want to use pre-consumer recycled content materials, and you likely already do so. Pre-consumer materials were never used or touched by the consumer. They are materials that were discarded and reused within the manufacturing process. Most recycled content packaging in the store and in the corrugate is pre-consumer. But, what about all the paper and glass being collected in recycle bins? People always wonder if that ends up in landfill. These materials are input into post-consumer recycled packaging. Post-consumer closes the loop from people putting stuff in their recycling bins and it being repurposed as packaging. Packaging can be a mix of pre-consumer and post-consumer fibers. If you use post-consumer fibers in packaging, make sure to let your customers know. Even better is to ensure that your packaging is commercially compostable. As more commercial composting facilities become available, your packaging will already meet the compostable criteria.

You have been collecting processing plant animal welfare audit results and requiring corrective actions for audit deficiencies in the crawl stage. You have informed your animal protein suppliers your positions on particular animal welfare criteria in the walk stage. To run, it is time to create your animal protein specifications with on-farm animal welfare certifications that are traceable and auditable.



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USDA Certified Organic has some animal welfare requirements that must be met. Sustainably-savvy consumers, however, may be looking for higher animal welfare standards than those required in USDA Certified Organic. You may want to have private brand American Grassfed Certified beef or private brand Certified Humane cage-free eggs. You may want to require the Global Animal Partnership (GAP) five-step rating certification, giving producers the option at which step to qualify. Animal Welfare Approved is a stricter option, a program which will not certify producers with dual production systems and requires the same level of animal welfare conditions for all livestock. You can see how requiring your suppliers to meet these on-farm certifications will require the steps we suggested in the crawl and walk phases.

To get to the run phase, you have already needed to have consistent communication with your private brand suppliers and manufacturers. You have also been promoting your efforts to customers through social media, POS materials in-store and messaging on your website. To run, you will need to be committed to regularly communicating your private brand sustainable sourcing attributes through more innovative marketing vehicles that reflect your private brand sustainable sourcing strategy.

### CONCLUSION

To encourage private brands to undertake sustainable sourcing, we examined widely-held myths, risks and business opportunities. We have introduced the Crawl-Walk-Run approach and outlined actionable steps to take along the way. It is most important to establish your team of private brand stewards and develop an approachable, believable and doable private brand sustainable sourcing strategy. There are sustainable sourcing opportunities in areas such as packaging, supplier diversity, food waste and supply chain animal welfare. Develop strategies that give your private brand



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products the “AND” factor, so customers feel they are getting more for their money. Communicate your efforts effectively and attract LOHAS (Lifestyle of Health and Sustainability) and Millennial loyalty and dollars to the value equation reflected in your private brand sustainable sourcing strategy.

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