



Nestlé procurement policy for agricultural raw materials

The business objectives of Nestlé are to produce and market food products that satisfy customers and consumer expectations, and to provide good quality food and value for money.

The key raw materials purchased by Nestlé are: milk, coffee, and cocoa. These, as well as fruit, vegetables, cereals, potatoes are partly sourced directly from farmers. Sugar, oil, meat, spices and other ingredients are sourced only through the trade. Total expenditure for raw materials in 2000 came to 19.7 bio Swiss Francs; this formed 24% of total turnover.

Sourcing has to contribute to the sustainable and profitable development of our company by providing the base for quality differentiation of finished products (customer / consumer satisfaction) and by assisting operating companies to be a competitive producer. This requires a supply of raw materials at specified quality, in the quantities and at the timing needed, and at the lowest possible system costs.

The strategies employed in sourcing depend on the proprietary characteristics of the raw materials and on the requirements of the factories. Most of the raw materials are bought through the trade, but part are bought directly from farmers. This direct procurement is more common for perishable products (e.g. milk), and where the company has specific needs. Nestlé does not own any commercial farming activities.

Two challenges face the company in its sourcing of raw materials. The first one is how to fulfill the increased global need for food while resources of land and water are limited. The second challenge is to meet the changing concerns of the consumer. As consumers become more well-off they become increasingly interested in social responsibility and personal value issues, for example: GMOs, fair trade, animal welfare, labour issues, environmental issues.

The difficulty for Nestlé in addressing these challenges is that these issues are located in the upstream supply chain and are thus out of the company's direct control, except to a limited degree when purchasing from farmers. The solution is to enhance mainstream agricultural production towards sustainability with the focus on food quality and safety aspects. This type of agriculture is described as *Sustainable Agriculture*.

There are two aspects to Nestlé's strategy to implement Sustainable Agriculture. One is **pre-competitive** (concerned with agriculture in general). Here Nestlé seeks to collaborate with the food industry on a common SAI (Sustainable Agriculture Initiative) platform with Danone and Unilever and other industries. In this initiative Nestlé seeks to provide general support to sustainable agricultural development, and cooperates with traders and primary processors to support sustainable practices in the trade of commodities.

The other aspect is **competitive** (concerning relations with direct suppliers). Here Nestlé encourages sustainable agriculture through the sourcing of its key raw materials (milk, coffee, and cocoa). This is done by providing guidelines to the producers and by developing preferential supplier contracts.

Sustainable Agriculture offers opportunities for food companies to achieve better control on long term supply of raw materials at reasonable costs, and at the same time to improve quality and enhance quality control (through increased traceability).