



## *Winning through the supply chain*

*Strategic issues in managing Food & Agri supply and supply chains*



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*Food & Agribusiness Research & Advisory*

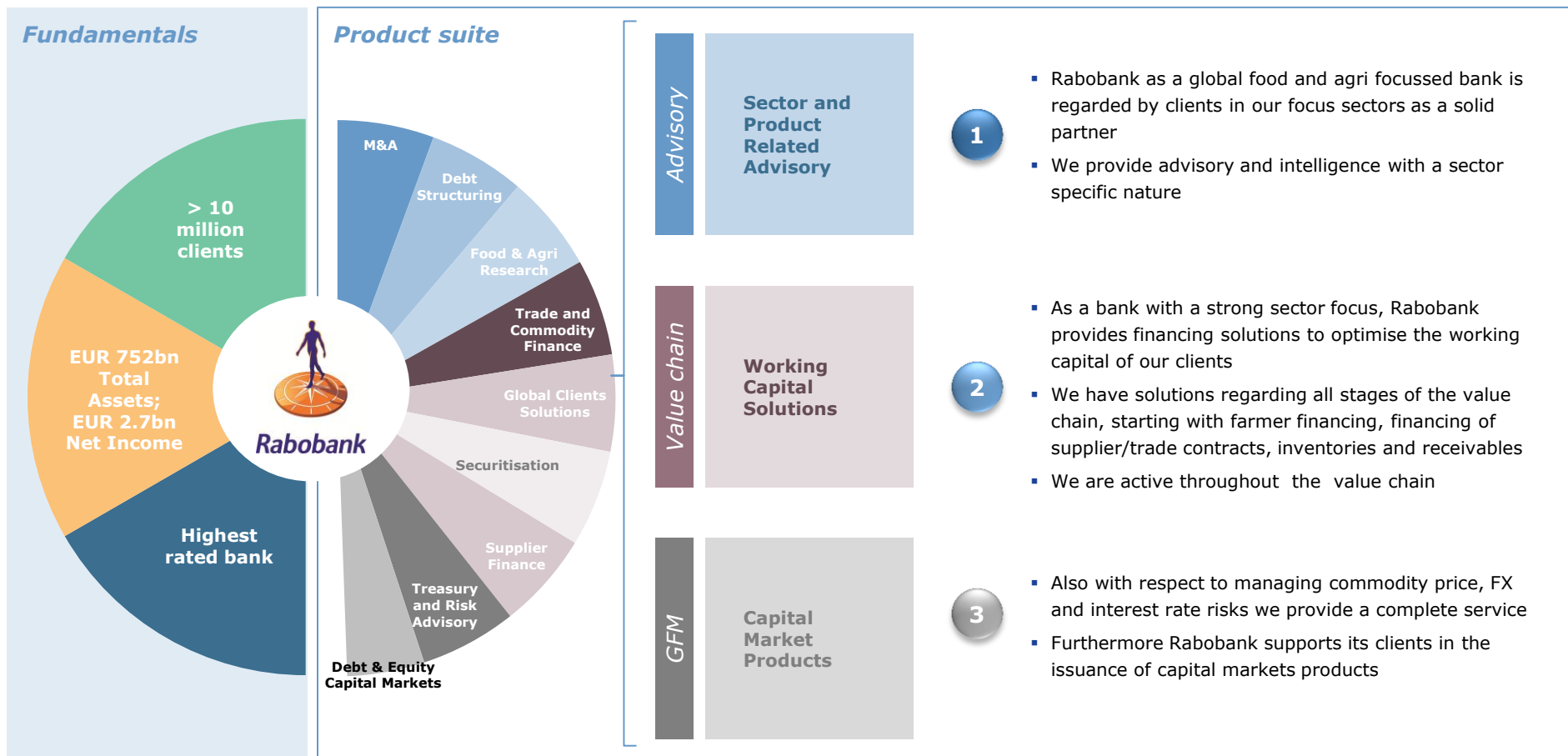
*Colombo, Sri Lanka*

*August 20, 2013*



**Rabobank**

# Rabobank combines strong fundamentals with a state-of-the-art full product offering



Best developed market bank in the Netherlands  
(Global Finance award, 2012)



#1 Dutch Investment Bank  
(Brendan Wood, 2012)



Highest rated privately owned bank based on new ratings system (2012)

I

*Why supply chains have become a strategic issue in F&A*

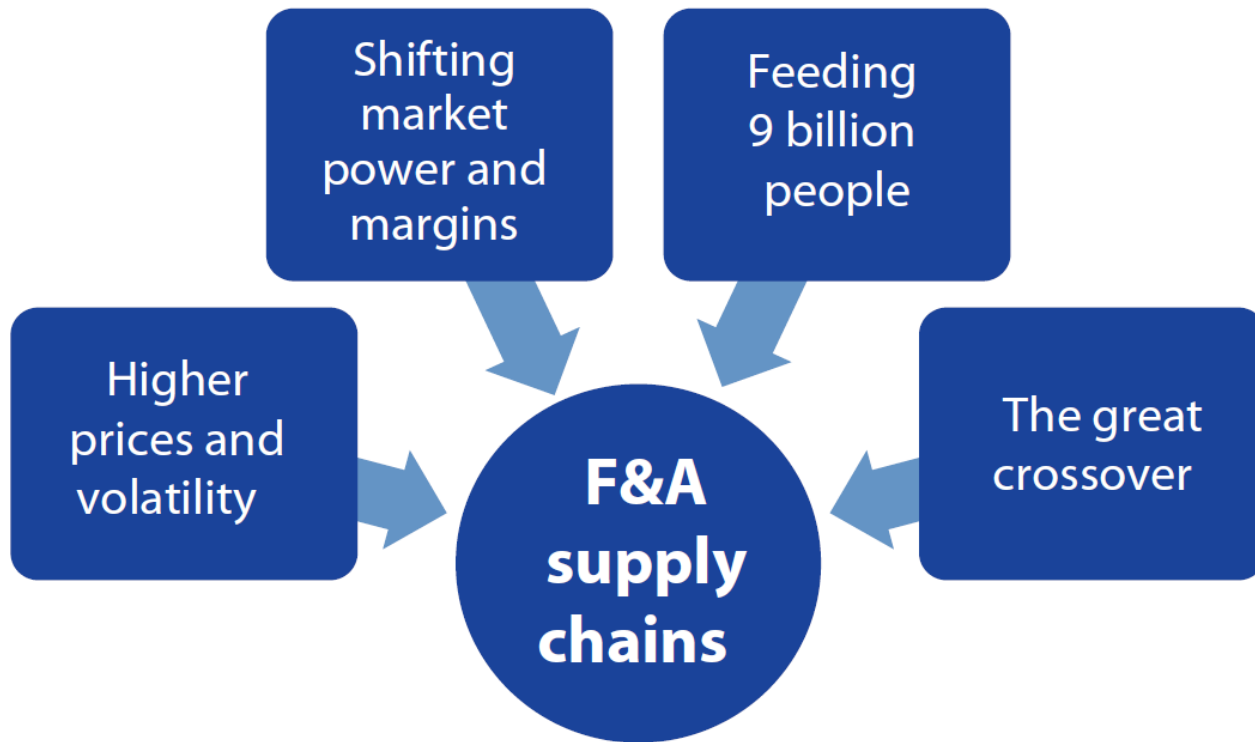
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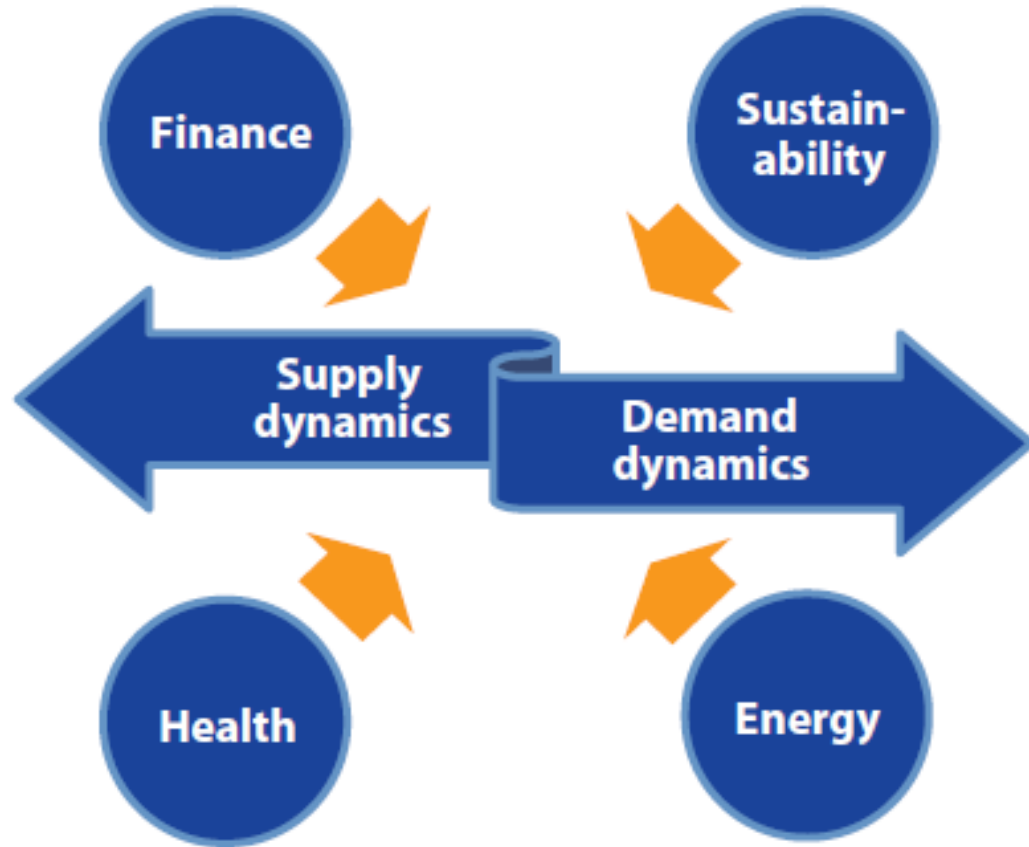
# F&A supply chains are under unprecedented pressure

*Four drivers are responsible – the first three are well known, the fourth, the great crossover, is new*



The great crossover creates new complexity, adding to supply chain pressure

*This overall concept is new, even though the individual elements are well known*



- Four outside agendas now influence the traditional dynamics of supply and demand in the F&A sector
- Their individual and combined influence has become material
- The complexity created is set to remain for at least this decade

## Leading F&A companies are responding to pressure

*Supply chain management has become a strategic issue – companies are engaging more deeply with suppliers and their chains.*

*Small-holders are a particular focus for major F&A companies*



Starbucks is investing in its supply chain in Yunnan, China.

Starbucks has established a local coffee grower training centre to improve local production. In return Starbucks wants to market high-quality Yunnan coffee.



Nestlé has formal structures to help manage its chain.

Nestlé directly works with some 45,000 farmers, providing advice to meet Nestlé's product quality and sustainability requirements.



Coca-Cola is looking double its revenues by 2020.

Can the supply of agri commodities keep pace with this sort of target?

# Key questions companies are asking about their supply chains

The fundamentals haven't changed, but supply chains now need to deliver more – for most this means a new way of working is needed



## Quality and price

- Can the chain deliver on the fundamentals?

Questions increasingly being asked of suppliers and supply chains

## Protect and grow margins

- Power is shifting along the chain – sellers have increasing negotiating power, and margins are shifting accordingly
- Are all players in the chain adding value?

## Security of supply

- Is the supply I need going to be available if I rely on current sourcing approaches?

## Support growth

- Can my supply chain enable growth in new markets – new products and new geographies?

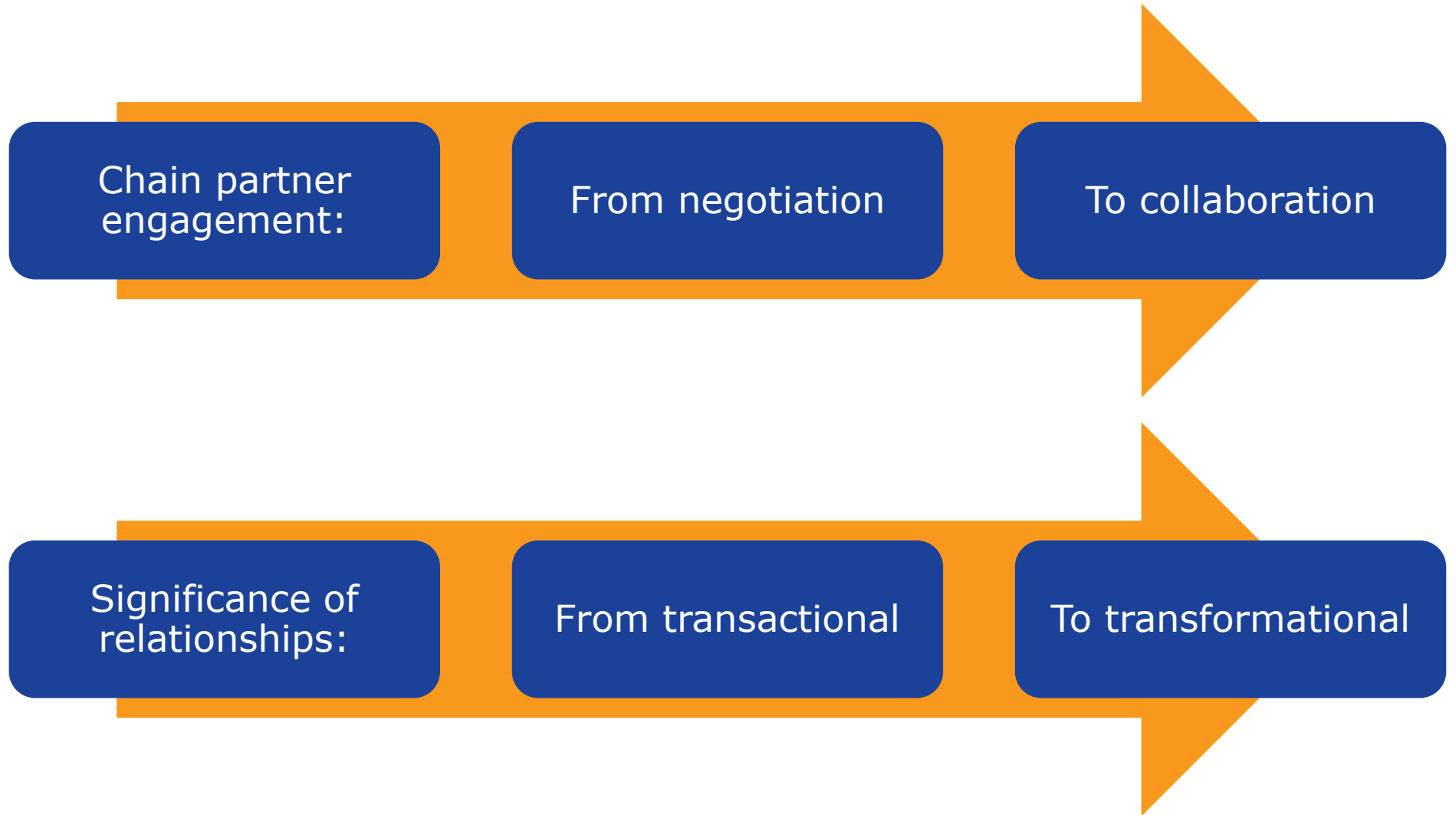
## Safety and sustainability

- Can my supply chain deliver on other product attributes?

## Strengthen the weakest link

- How can I help strengthen the weakest links in the chain and thereby improve performance of the whole chain
- What can I leverage my buying and financial strength?

# Fundamental changes in supply chain management are underway in the F&A sector





## Increasing supply chain cooperation presents a dilemma for many F&A companies

*Buyers are seeking to protect margin – how much upside is needed to secure supply?*



*Suppliers are gradually strengthening their negotiating position – they want more from a buyer in return for a supply commitment*

*A new value proposition is needed...*

## II

*Closer cooperation in supply chains - the step now being taking*

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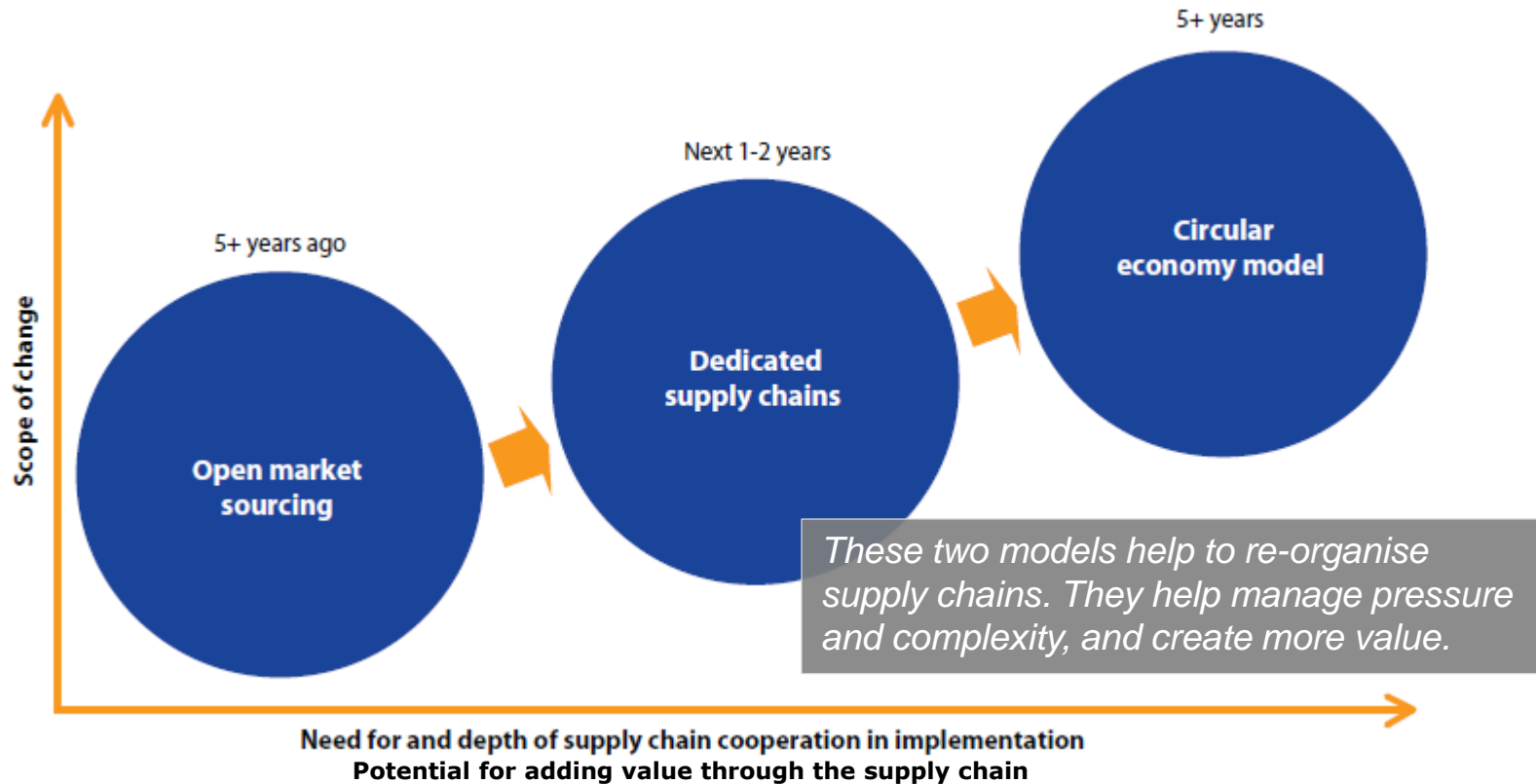
**Rabobank**

Rabobank's view is that closer cooperation is the key to winning through the supply chain



*Closer cooperation can take many forms*

*Rabobank sees two specific models as the right steps to reorganising chains. They help manage pressure and complexity, and create more value.*

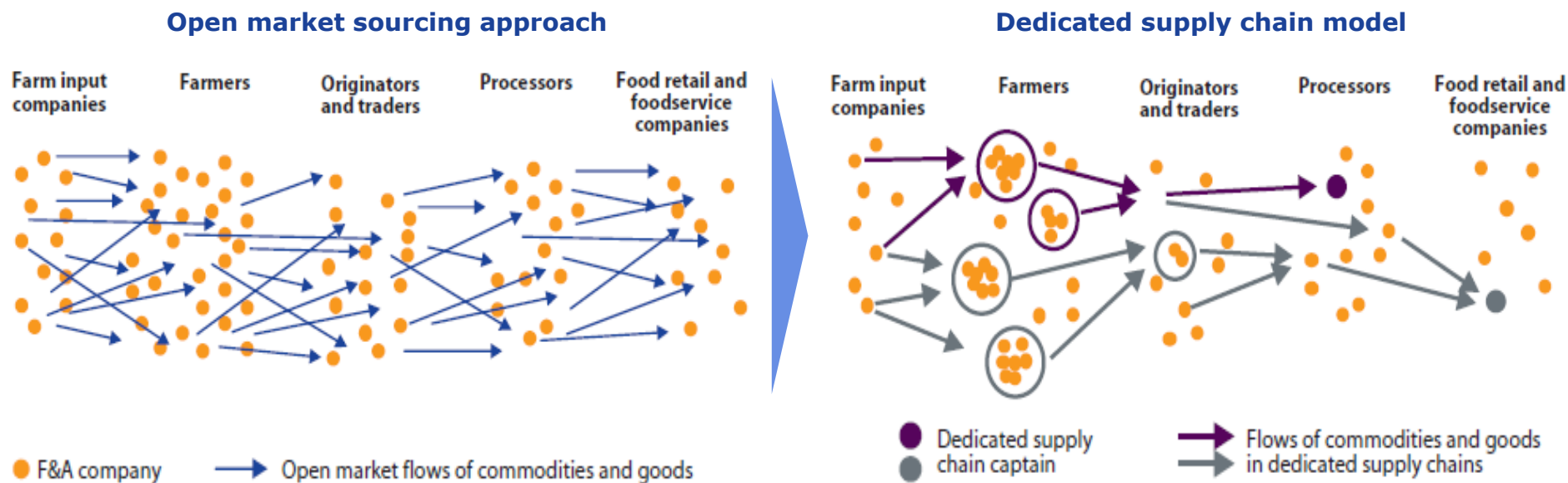




## Dedicated supply chains – a new direction for F&A

*Dedicated supply chains allow all F&A companies to increase control of supply to manage pressure and complexity*

*They depend on close, formalised cooperation, from one end of the chain to the other, multi-year supply agreements, and a focus on adding value*



# It's about adding value rather than chasing price

The value proposition for dedicated supply chains is built on five drivers



## Reduce risk

- Reduce exposure to market price volatility through multi-year, more stable pricing arrangements
- Improve resilience to market shocks

## Improve productivity

- Optimise production through increased certainty on inputs and outputs
- Improve process innovation through better insights into chain needs
- Work with partners to optimise resource flows and valorise waste flows

## Improve access to capital

- Improve investment opportunities through more stable cash flow and longer-term supply agreements
- Access new models that provide leverage from chain partners

## Access new markets

- Improve product innovation – working alone or with chain partners – through better insights into downstream needs and opportunities

## Enhance reputation and brand

- Work with chain partners to deliver on other required product attributes, such as safety and sustainability

## Focussing on sustainability through the supply chain

They are identifying areas in their supply chains where they can create competitive advantage



- Improve productivity
- Reduce risk
- Enhance brand



- Reduce risk
- Enhance brand
- Integrate into supplier engagement



- Improve productivity
- Reduce energy
- Improve water use

## Engaging with small-holders through the supply chain

They are identifying areas in their supply chains where they can create competitive advantage



**MARS**

- Improve productivity
- Develop new models with small-holders



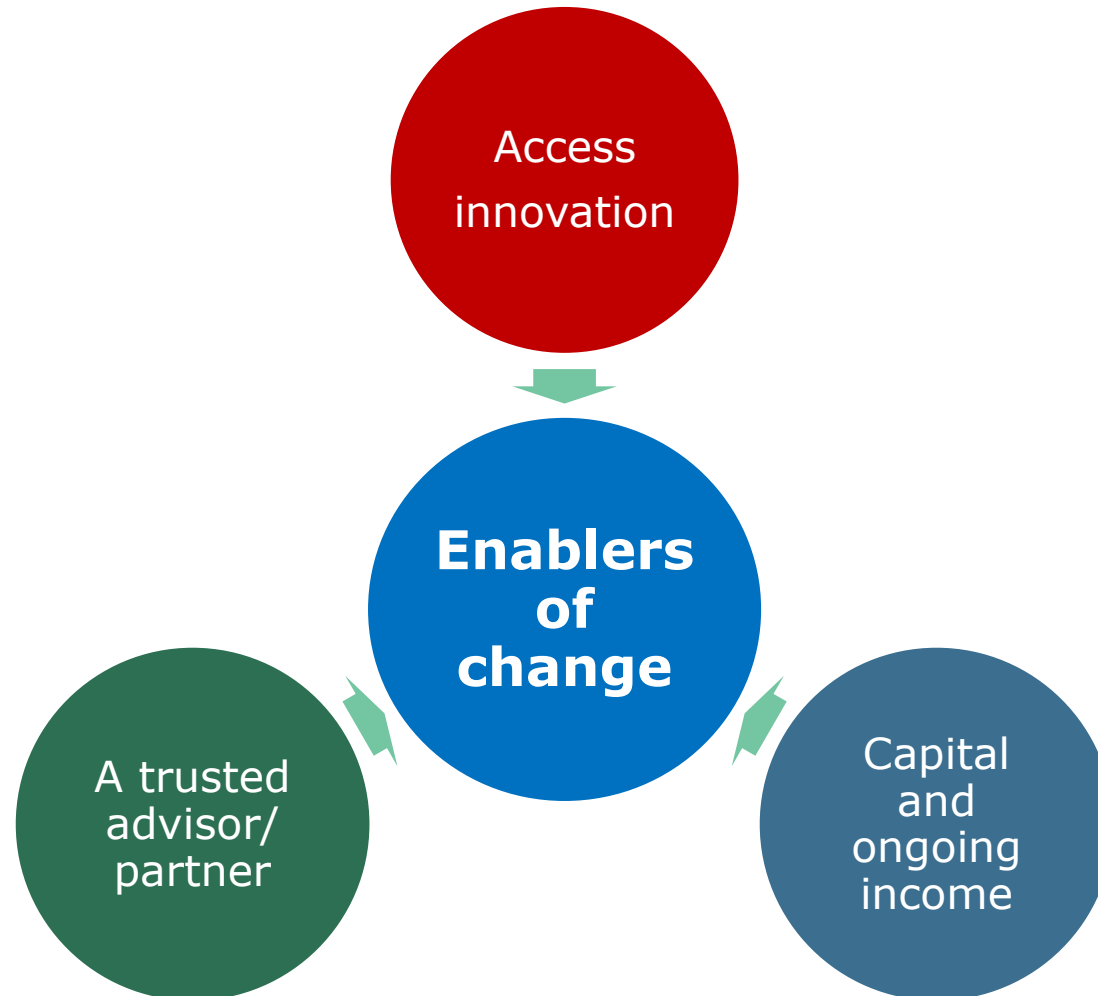
- Reduce risk
- Enhance brand
- Share best practices



*Coca-Cola*

- Improve productivity
- Strengthen gaps in the chain

*Small-holders can rise to the opportunity presented by these changes in F&A supply chains, provided three key enablers are in place.*





## Mars Program for Basmati Rice Farmers in Pakistan



# MARS

- The commercial team of Mars Food Europe selected 27 farmers in Punjab, Pakistan to produce 1,000 tonnes of basmati rice in the first year.
- Farmers receive support and advice from a team of local agricultural experts, to ensure they comply with our quality standards. The team will also help farmers to minimize their use of chemicals by supplying fertilizers and pesticides that comply with strict EU food safety requirements.
- The farmers are paid a premium over “typically” grown basmati to incentivize participation. Only deliveries that meet Mars specification will be shipped to Mars, encouraging everyone involved to make the project a success.
- The best proof that this concept is working is the increase from 27 to 78 farmers involved in the second year of the program. This has enabled volumes to rise to 3,000 tonnes, representing 30 percent of our annual needs.
- In 2013, Mars will build a Rice Development Centre that will provide training and extension services for the local farmers. The International Rice Research Institute (IRRI) and Bayer Crop Science are partnering with us to help improve farming practices in Punjab.

## Nestlé invests in coffee nursery in Philippines



- *Nescafé* has inaugurated a new coffee centre of excellence in the Philippines to improve the quality and quantity of the coffee crop in a country where demand for beans far outstrips supply.
- Established as a one-stop shop for coffee-growers in the region to give farmers access to the best of Nestlé's coffee farming technology and training. In 2012, for example, local demand for coffee beans totalled more than 70,000 tonnes, while local production reached only 30,000.
- Nestlé Philippines is the country's biggest buyer of Robusta coffee beans and the centre will also secure its long-term supply of the crop.
- The Nestle Plan, launched in 2010, is a global CHF 350 million initiative supporting sustainable coffee farming, production and consumption. It is estimated that some 3,500 farmers will receive coffee seedlings direct from the centre by 2020.

## Project Nurture brings passion to the Coca-Cola supply chain



- In 2010, The Coca-Cola Company, nonprofit TechnoServe, and the Bill & Melinda Gates Foundation launched Project Nurture, a partnership to enable over 50,000 small fruit farmers in Uganda and Kenya to increase their productivity and double their incomes by 2014.
- This four-year, \$11.5 million partnership will enable mango and passion fruit farmers to participate in Coca-Cola's supply chain for the first time.
- With a \$7.5 million grant provided by the Gates Foundation to TechnoServe, \$3 million provided by The Coca-Cola Company, and \$1 million by bottling partner Coca-Cola Sabco, the project aims to create new market opportunities for local farmers whose fruit will be used for Coca-Cola's locally-produced and sold fruit juices.
- As the implementing partner, Technoserve will train participating farmers in improving quality, increasing production, getting organized into farmer groups, and will facilitate access to credit.

# Key Benefits to Small Holders



## Contact details



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*Additional Slides*

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**Mr. Colbert joined Rabobank in 2011 and is responsible for developing FAR's research portfolio and Rabobank's global view toward the beverage sector. Rabobank's FAR team provides information and analysis covering all of the major sectors throughout the food chain. The seven-member FAR Beverage team is part of Rabobank's global FAR group, which is comprised of approximately 70 analysts around the world.**

Colbert joined Rabobank following an extensive career in the beverage industry. Most recently he was Managing Director of M&A Americas for Zenith International, which is one of the world's leading consulting, market intelligence and financial advisory firms focused on the global food and beverage industry. Prior to that, he was Managing Director and Chief Operating Officer for eight years at Beverage Marketing Corporation, which provides market intelligence and financial advisory services to the global beverage industry. Over his career he has served as an advisor to Pepsico, Coca-Cola Enterprises, Heineken, Nestle Waters, Snapple Beverages, and Seagram's as well as many independent, private beverage companies. Additionally, he began his career at Coca-Cola Bottling of Miami, then moved to Beverage Canners International and Cadbury Schweppes. He has his undergraduate degree in political science from the University of Hawaii, and a Masters in Business Administration from the University of New Haven. Additionally, Colbert completed an Executive Program in Corporate Finance and Mergers & Acquisitions from the University of Pennsylvania, Wharton School.

# Segmentation of farmers

