FOOD FOR THOUGHT

A periodic examination of key issues and trends from Marsh's Food & Beverage Practice

SUSTAINABILITY AND RISK FOR FOOD AND BEVERAGE COMPANIES

Sustainability has become a routine part of corporate governance for many companies that produce and distribute food products. Organizations increasingly are aware of the direct and indirect impact that the manufacturing process or sourcing of products can have on the environment and on a company's reputation. As sustainability has become rooted in how food and beverage companies operate, questions and concerns abound over how to address new risks associated with corporate responsibility.

Sustainability is described by the Food Marketing Institute as "business practices and strategies that promote the long-term well-being of the environment, society, and the bottom line." In contrast, "green" initiatives only address the environmental impact of a product or process. Based on this definition, sustainable practices in the food and beverage industry can include how a product is:

- Grown, fertilized, and watered.
- Harvested.
- Transported.
- Processed and packaged.
- Displayed.
- Disposed of after use.

SUSTAINABILITY COMING TO LIGHT

In the past, consumers knew little about — or misunderstood — many sustainable practices. For their part, most food and beverage companies did little to help consumers understand. But consumer interest has grown in how and where products are grown, processed, and distributed. And companies no longer have as much control over the distribution of information relating to their products as social media platforms have become a significant source of product information. As a result, consumers are inquiring about energy used to produce and transport a product, fair labor standards, chemicals used to grow and process a product, and waste streams.

In order to maintain market share for their product lines and reduce unnecessary expenses, most food and beverage companies have addressed many sustainability issues by reformulating products, reducing harmful byproducts or safety hazards, improving transportation efficiencies, requiring suppliers to comply with fair labor standards, and improving manufacturing processes. Additionally, many companies regularly report their sustainability efforts through key performance indicators (KPI's) or annual reports.

SUSTAINABILITY RISKS

Food and beverage companies should be aware of potential unintended consequences when making product improvements for sustainability. Some examples include:

- **Geopolitical Risks:** A food manufacturer switches suppliers due to labor issues involving one of its growers. The change results in using a grower in a country with a higher risk of political instability.
- **Environmental Risks:** A manufacturer decides to eliminate hazardous chemicals used in the production of one of its products. The revised process is based on new technology and errors in installing the new equipment result in a significant spillage of a product off-site during the start-up of the modified production line.
- **Disclosure Risks:** A food and beverage company producing a sustainability section in its annual report inadvertently publishes misinformation, incomplete sustainability data, or outdated KPI's resulting in poor ratings from several industry analysts.
- **Regulatory Risks:** As consumers increasingly expect sustainability to be a part of an organization's overall value proposition and stakeholders and analysts rely on it to evaluate performance, food and beverage companies can expect increased regulatory activities in this area.

One of the major risks with any sustainability program is that it may exist outside an organization's normal framework of risk assessment and risk control. As with any strategic, operational, financial, or regulatory risk affecting a food and beverage company, sustainability risks need to be identified, assessed, controlled, and monitored. In many cases, adding sustainability efforts to existing operations has actually changed the risk profile of an organization. It is critical that risk managers are aware that such changes can result from sustainability initiatives.

MANAGING THE RISK

To mitigate a potential change in risk profile from sustainability efforts, effective communication with both operational and manufacturing groups is necessary. Basic information on products produced or distributed, specific ingredients, and suppliers should be properly maintained and shared. Regular communication with research and development teams along with sales and merchandising groups can help identify new products and evaluate product risks.

Despite the risks, it is important to emphasize that changes to a food and beverage company's operations and processes stemming from sustainability initiatives can have a positive impact on its risk profile. Other benefits can include increased market share, reduced energy expense, reduced waste expense, and improved product quality. These changes should be carefully reviewed against current risk retention and risk transfer programs to ensure that maximum benefit and protection is obtained.

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MAC NADEL
Retail/Wholesale, Food & Beverage
Practice Leader
+1 203 229 6674
mac.d.nadel@marsh.com

LARRY MULLEN
Retail/Wholesale, Food & Beverage
Deputy Practice Leader
+1 949 399 5865
larry.j.mullen@marsh.com