

Investing in Sustainable Sourcing: Proposed Benefits & Monetization Methods

April 2023



Return on Sustainability Investment (ROSI™) Framework

Sustainability Drivers of Financial Performance & Competitive Advantage

Embed:

When companies embed sustainability risks and opportunities into their strategy and decision-making processes, they...



Improve:

- Risk Management
- Stakeholder Engagement
- Operational Efficiency
- Talent Management
- Supplier Relations
- Media Coverage
- Customer Loyalty
- Sales & Marketing
- Innovation

Drive:

- Revenue Growth
- Greater Profitability
- Higher Corporate Valuation

Deliver:

- Quantifiable Business Value & Positive Societal Impact



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By embedding ESG risk and opportunities within core business strategy, the return on sustainable investment can be quantified, delivering the possibility of both financial value and positive societal impact.

Overview of Food & Agriculture Framework

NYU Stern CSB is developing a ROSI™ framework for food & agriculture with publicly available monetization tools to help the industry understand where and how sustainability can unlock financial value.

Based on research, experience, and engagement with industry leaders, we have identified the following sustainability strategies* used by the industry to include in the framework:

Water stewardship

Soil health

Climate change

Chemical management

Biodiversity and ecosystem
conservation

Animal stewardship

Food waste management

Sustainable sourcing

Food safety and nutrition

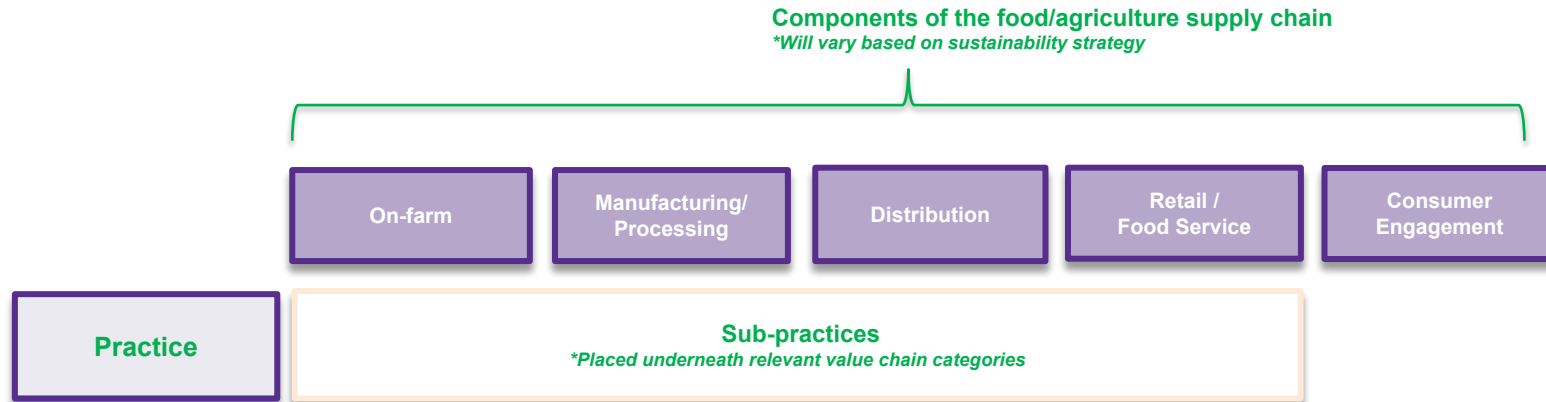
Sustainable packaging

Employee and supplier
well-being

Brand marketing and
communications

Identified Sustainability Practices and Sub-Practices Framework Layout

- Through our research, we identified key sustainability practices and sub-practices food and agriculture supply chains are implementing to achieve their sustainability strategies
- Each strategy includes sub-practices which are mapped under the relevant components of the food/agriculture supply chain, (if not relevant to a part of the supply chain, it is excluded)
- There are some benefits that are referenced across multiple strategies
- Compliance / enforcement practices are not explicitly listed in this framework but should be considered when implementing the twelve strategies
- Please see diagram below of the framework layout, which is illustrated for each strategy in the subsequent slides



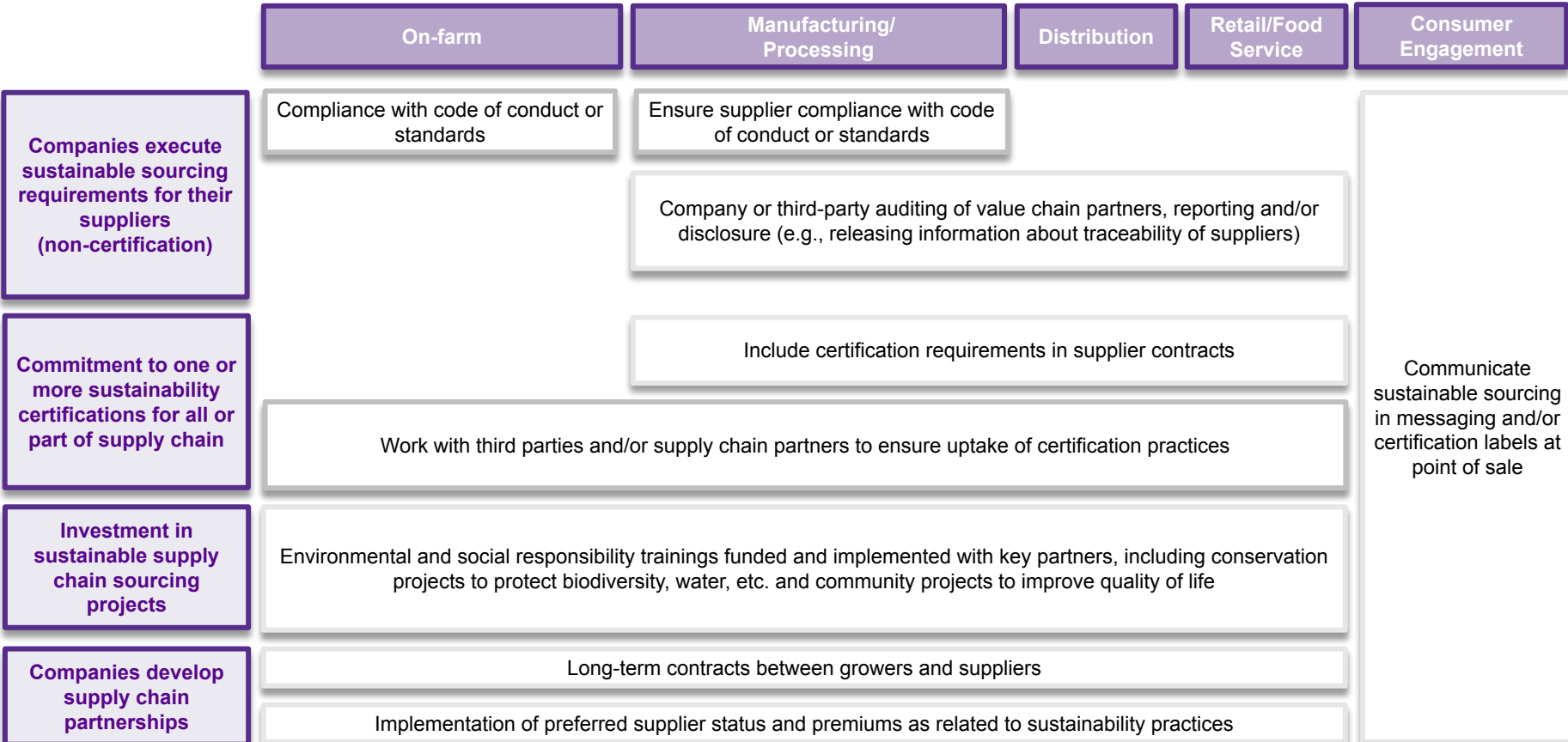


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Monetization Approach

Investing in Sustainable Sourcing

Overview of Sustainability Strategy and Relevant Impact Categories

In the following slides, we will be focusing on benefits from the *Sustainable Sourcing* sustainability strategy, which are categorized based on the relevant impact categories highlighted below

Sustainability Strategy Definition

Investing in Sustainable Sourcing

Food and Agriculture companies are investing in strategies to ensure sustainable sourcing of ingredients including setting sustainable sourcing requirements, requiring certifications, entering into supply chain sourcing projects and partnerships, and/or providing traceability and verification through audits

Relevant Impact Categories

Benefits that...

Operational Efficiency (OE)

Optimize corporate and supply chain efficiencies to lower cost and increase profits

Sales and Marketing (SM)

Increase volume of sales through brand and marketing policies

Customer Loyalty (CL)

Attract an increasing community of conscious buyers & consumers, while reducing retention costs

Risk Management (RM)

Encourage risk mitigation and resilience within the value chain

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Overview of Sustainability Strategy and Relevant Impact Categories (continued)

In the following slides, we will be focusing on benefits from the *Sustainable Sourcing* sustainability strategy, which are categorized based on the relevant impact categories highlighted below

<i>Relevant Impact Categories</i>	Benefits that...
Stakeholder Engagement (SE)	Improve goodwill among the broader stakeholder community (i.e. NGOs)
Talent Management (TM)	Attract and retain high-quality internal talent
Supplier Relations (SR)	Improve upon the relationships between the company and its suppliers
Media Coverage (MC)	Increase a company's media presence with the development of traditional and social media content
Innovation (IN)	Create new revenue streams using sustainable business models

Investing in Sustainable Sourcing Requirements, ON FARM

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Companies execute sustainable sourcing requirements for their suppliers (non-certification)	Compliance with code of conduct or standards	SS-1	Decreased likelihood of being found in non-compliance with company standards (labor exploitation, illegal land-use, deforestation, etc.) and receiving a fine or any other regulatory sanction	RM	Estimate the probability of receiving a fine and/or experiencing a regulatory sanction. Calculate the increased costs resulting from paying a fine and the administrative costs related to get back into compliance. If applicable, calculate also the potential yield or production loss resulting from the regulatory sanction.
		SS-2	Decreased likelihood of being found in non-compliance with a company standard and losing a customer	RM	Estimate the probability of losing a customer and related loss in sales and/or deterioration of margin due to diversion to lower-margin sales channels. Calculate related friction costs (administrative costs, extra storage costs, etc.)
		SS-3	Decreased likelihood of a disruption in production	RM, OE	Calculate the operational impacts of a disruption in production (for instance, labor shortage causing a halt in production or sales of products or disruption due to regulatory violations) leading to missed harvest timing, crop loss and lost sales. Estimate the likelihood of occurrence. Multiply the loss amount by the probability of occurrence to calculate the avoided costs

OE
SM
CL
RM

= Impact categories based on color coding illustrated on previous slides

Investing in Sustainability Certifications, ON FARM

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Commitment to one or more sustainability certifications for all of part of supply chain	Work with third parties and/or supply chain partners to ensure uptake of certification practices	SS-4	Improved revenue by selling product at a premium	SM	Calculate the sales differential by comparing the volume of product sold with the certification at a premium compared to volume of product if it had been sold on the conventional market. Apply the margin % to the sales differential (accounting for costs) to estimate the net benefit. Note that there may be a lower volume produced after implementing the practices.
		SS-5	Ability to enter into long term contracts potentially at favorable pricing and/or payment terms	OE	Gather data on historical price distribution across both sustainable and non-sustainable focused buyers and measure price differentials. Estimate the potential shift away from lower value sales (in terms of price or payment terms) to quantify the benefit.

Note: Environmental and social responsibility trainings funded and implemented with key partners will benefit farmers because: Farmers can receive financial compensation as well as production-related benefits; Farmers can achieve productivity benefits of implementing sustainable practices that improve biodiversity, soil health, and water stewardship. See more details in the Biodiversity, Soil Health, and Water Stewardship presentations for detailed metrics.

Investing in Sustainable Sourcing Requirements for Suppliers, COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Companies execute sustainable sourcing requirements for their suppliers (non-certification)	Ensure supplier compliance with code of conduct or standards	SS-6	Ensuring compliance with sourcing standards leads to a reduction of administrative costs linked to resolving customer inquiries and/or grievances with suppliers related to sustainable sourcing requirements	OE	Estimate the number of grievances/inquiries historically self-initiated or by NGOs, clients regarding compliance with sustainability standards. Estimate the average employee hours used to resolve requests. Estimate the impact of sustainability initiatives on the number of grievances/inquiries and hours spent to resolve capturing expected cost savings.
		SS-7	Reduction in the likelihood of supply disruption and related costs	OE, RM	Calculate the operational impacts of a supply disruption (using historical cost data related to past or similar events) or estimating the potential amount of supply likely to be impacted and assessing outcomes (loss in sales or higher substitute procurement costs). Estimate the likelihood of a supply disruption occurring and multiply the by the costs and/or lost sales and margins to calculate the benefit of avoided costs.
		SS-8	Avoid revenue loss from sustainability-focused scandals (reputation risk) or lower sustainability rankings/ratings (customer driven)	RM	Estimate the likely decline in sales to top-sustainability customers and including how this might shift to other segments. Estimate either the change in mix or loss in revenue and multiply by profit margin (differentials or absolute) to estimate the potential loss in earnings. Multiply this result by a probability factor to calculate likely profit loss on sales changes and deduct any additional costs (PR costs, legal costs, etc) to measure avoided costs.

Investing in Sustainable Sourcing Requirements for Suppliers, COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Companies execute sustainable sourcing requirements for their suppliers (non-certified)	Company or third-party auditing of value chain partners, reporting and/or disclosing related information (for e.g., providing traceability of suppliers)	SS-9	Reduction in the cost of preparing sustainability reports and answering customer queries	OE	Calculate the number of hours and administrative costs spent to collect data on sustainability initiatives of suppliers and the company. Estimate expected decrease in data requests and costs, and expected savings in staff time achieved by working with suppliers supporting sustainable product, and providing traceability and transparency. Multiply with wage rates by hours saved to estimate cost savings
		SS-10	Increased sales to high sustainability driven customers and or retail channels	SM	Forecast sales volumes of customers focused on sustainability or all customer segments using category growth and market share assumptions. Estimate the incremental growth in customer volumes (increased market share or retail penetration) due to sustainability initiatives. Apply company estimate of profit margin earned to quantify the benefit of increased sales and deduct any incremental costs to quantify the net benefit.
Commitment to at least one sustainability certification for all or part of supply chain	Include certification requirements in supplier contracts	SS-10	Increased sales to high sustainability driven customers and or retail channels	SM	Forecast sales volumes of customers focused on sustainability or all customer segments using category growth and market share assumptions. Estimate the incremental growth in customer volumes (increased market share or retail penetration) due to sustainability initiatives. Apply company estimate of profit margin earned to quantify the benefit of increased sales and deduct any incremental costs to quantify the net benefit.
		SS-11	Adding product certifications can increase higher-margin products or products sold at premium (improved sales mix)	SM	Gather historical sales data (volume, average sale price and margins) for both sustainable and conventional products. Estimate the sales impact due to adding certifications (overall increase, or change in mix if operating at capacity) and calculate the profit margins. Compare profit results to historical levels (or forecast that excludes adding certifications) to calculate the earnings benefits

Investing in Commitment to Sustainability Certification(s), COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Commitment to at least one sustainability certification for all or part of supply chain	Work with third parties and/or supply chain partners to ensure uptake of certification practices	SS-12	Accelerated uptake of certified production leading to a reduction of sustainable sourcing costs through partnerships (e.g. Landscape programs)	OE	Calculate the current administration costs of ensuring supply chain compliance and the current average cost incurred for non-compliance issues. Forecast costs based on current program including estimating a timeline to achieve compliance target goals. Calculate a second scenario incorporating the investment in partnership programs, the impact on costs incurred (higher or lower), and any adjustments to the timeline to compliance target goals. Compare the annual costs of the 2 scenarios to measure the benefit of the partnership program.
		SS-6	Companies not currently directly engaged with supply chain participants to drive compliance may join with third parties to enforce standards which can reduce costs associated with customer queries and grievances	OE	Estimate the number of grievances/inquiries historically self-initiated or by NGOs, clients regarding compliance with sustainability standards. Estimate the average employee hours used to resolve requests. Estimate the impact of sustainability initiatives on the number of grievances/inquiries and hours spent to resolve capturing expected cost savings.
		SS-7	Companies not currently directly engaged with supply chain participants to drive compliance may join with third parties to enforce standards which can reduce supply disruptions	OE	Calculate the operational impacts of a supply disruption (using historical cost data related to similar events) or estimating the potential amount of supply likely to be impacted and assessing outcomes (loss in sales or higher substitute procurement costs). Estimate the likelihood of a supply disruption occurring and multiply the by the costs and/or lost sales and margins to calculate the benefit of avoided costs.

Investing in Commitment to Sustainability Certification(s), COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Commitment to at least one sustainability certification for all or part of supply chain	Work with third parties and/or supply chain partners to ensure uptake of certification practices	SS-8	Companies not currently directly engaged with supply chain participants to drive compliance may join with third parties to enforce standards which can avoid the risk of revenue loss due to scandals	RM	Estimate the likely decline in sales to top-sustainability customers and including how this might shift to other segments. Estimate either the change in mix or loss in revenue and multiply by profit margin (differentials or absolute) to estimate the potential loss in earnings. Multiply this result by a probability factor to calculate likely profit loss on sales changes and deduct any additional costs (PR costs, legal costs, etc) to measure avoided cost
	Communicate sustainable sourcing in messaging and/or certification labeling at point of sale	MC-3	Incorporating sustainability into brand identity and co-designing sourcing initiatives with brand engagement can result in higher growth rates and premium pricing	SM	Calculate annual margin/profit from additional business opportunities that emerge from associating with sustainability focused buyers vs. other buyers

Investing in Sustainable Supply Chain Sourcing Projects, COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Investment in sustainable supply chain sourcing projects	Environmental and social responsibility trainings funded and implemented with key partners, including conservation projects to protect biodiversity, water, etc. and community projects to improve quality of life	SS-6	Actions can ensure compliance with sourcing standards leads to a reduction of administrative costs linked to resolving customer inquiries and/or grievances with suppliers related to sustainable sourcing requirements	OE	Estimate the number of grievances/inquiries historically self-initiated or by NGOs, clients regarding compliance with sustainability standards. Estimate the average employee hours used to resolve requests. Estimate the impact of sustainability initiatives on the number of grievances/inquiries and hours spent to resolve capturing expected cost savings.
		SS-7	Reduction in the likelihood of supply disruption and related costs	OE, RM	Calculate the operational impacts of a supply disruption (using historical cost data related to past or similar events) or estimating the potential amount of supply likely to be impacted and assessing outcomes (loss in sales or higher substitute procurement costs). Estimate the likelihood of a supply disruption occurring and multiply the by the costs and/or lost sales and margins to calculate the benefit of avoided costs.
		SS-8	Avoid revenue loss from sustainability-focused scandals (reputation risk) or lower sustainability rankings/ratings (customer driven)	RM	Estimate the likely decline in sales to top-sustainability customers and including how this might shift to other segments. Estimate either the change in mix or loss in revenue and multiply by profit margin (differentials or absolute) to estimate the potential loss in earnings. Multiply this result by a probability factor to calculate likely profit loss on sales changes and deduct any additional costs (PR costs, legal costs, etc) to measure avoided costs.

Investing in Sustainable Supply Chain Sourcing Projects, COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Investment in sustainable supply chain sourcing projects (continued)	Environmental and social responsibility trainings funded and implemented with key partners, including conservation projects to protect biodiversity, water, etc. and community projects to improve quality of life	SS-12	Accelerated uptake of certified production leading to a reduction of sustainable sourcing costs through partnerships (e.g. Landscape programs)	OE	Calculate the current administration costs of ensuring supply chain compliance and the current average cost incurred for non-compliance issues. Forecast costs based on current program including estimating a timeline to achieve compliance target goals. Calculate a second scenario incorporating the investment in partnership programs, the impact on costs incurred (higher or lower), and any adjustments to the timeline to compliance target goals. Compare the annual costs of the 2 scenarios to measure the benefit of the partnership program.
Companies develop supply chain partnerships	Long-term contracts	SS-13	Obtaining longer-term contracts with suppliers can lead to contract administration cost savings	OE	Gather costs related to contract administration and divide by the number of supplier contracts to estimate costs per contract. Calculate the percentage of contracts that are long term and the average tenor, and estimate the growth in number of contracts and the growth in percentage terms that are long term. Calculate the administrative cost savings by multiplying the reduction in number of contracts being negotiated due to term extension by the cost per contract and applying an attribution factor to reflect improvement related to sustainable partnerships (versus the impact of better price and terms on contract extensions)

Investing in Developing Supply Chain Partnership, COMPANY

Overview of Benefits and Monetization Methods

Practice	Sub-Practice	Metric #	Proposed Benefits	Impact Category	Suggested Monetization Methods
Companies develop supply chain partnerships (continued)	Implementation of preferred supplier status and premiums as related to sustainability practices	SS-6	Supplier partnerships can reduce costs linked to resolving customer inquiries and/or grievances due to violations of sustainable sourcing requirements	OE	Calculate the number of hours and administrative costs spent to collect data on sustainability initiatives of suppliers and the company. Estimate expected decrease in data requests and costs, and expected savings in staff time achieved by working with suppliers supporting sustainable product, and providing traceability and transparency. Multiply with wage rates by hours saved to estimate cost savings
		SS-7	Supplier partnerships can reduce the likelihood of supply disruption and related costs	OE, RM	Calculate the operational impacts of a supply disruption (using historical cost data related to similar events) or estimating the potential amount of supply likely to be impacted and assessing outcomes (loss in sales or higher substitute procurement costs). Estimate the likelihood of a supply disruption occurring and multiply the by the costs and/or lost sales and margins to calculate the benefit of avoided costs.
		SS-8	Supplier partnerships can avoid revenue loss from sustainability-focused scandals (reputation risk) or lower sustainability rankings/ratings (customer driven)	RM	Estimate the likely decline in sales to top-sustainability customers and including how this might shift to other segments. Estimate either the change in mix or loss in revenue and multiply by profit margin (differentials or absolute) to estimate the potential loss in earnings. Multiply this result by a probability factor to calculate likely profit loss on sales changes and deduct any additional costs (PR costs, legal costs, etc) to measure avoided costs.



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