

Ferrero's Sustainability Strategy: Building Upon Tradition to Achieve Progress

Ferrero is a family-owned company that is deeply rooted in tradition and a commitment to the quality of our confectionary products. The company started in 1946 in the small northern Italian town of Alba and has grown into one of the largest chocolate and confectionery companies in the world with beloved products such as Nutella, Kinder and Ferrero Rocher. In shaping our sustainability strategy moving forward, we must critically evaluate our past and current actions and take full accountability for the societal and environmental impact of our business. By embracing the history and tradition of our past, we can use innovation and progress to carry our business into the future. As recently stated by our Executive Chairman, Giovanni Ferrero:

"Tradition and innovation are inherent to Ferrero's DNA. If I had to find a metaphor, I'd say that tradition is like a bow. The further back we pull the string, the further forward we can fire the arrow of modernity, of vision, of innovation" (*Ferrero, 2022*).

As we shape our future sustainability strategy at Ferrero, we must consider all aspects of our internal business, the external industry that we are a part of, and our overall societal impact. This encompassing view will allow us to create a strategy that is integrated with the three main pillars of sustainability: environment, economy and society. We shall also reference the existing framework of the United Nations 17 Sustainable Development Goals (SDGs). This will ensure our internal sustainability strategy is aligned with the mission of the SDGs, which is to "provide a shared blueprint for peace and prosperity for people and the planet, now and into the future" (*United Nations, no date*).

With our first Ferrero Sustainability Report launched in 2009, Ferrero has acknowledged the need for integrating sustainability into our business. However, we must also acknowledge the need to strive for more and identify actionable areas of opportunity for continuous improvement. By continuing to evaluate ourselves internally and using external sources as a guide, Ferrero can increase our focus on placing sustainability at the center of our business. Corporate sustainability management should be embedded into our culture with an outward lens on the context of economic competitiveness and the overall business environment of society (*Schaltegger, S. and Horisch, J., 2015*). This approach will allow us to craft a strategic vision that embraces the past foundational work we have done from a sustainability perspective and identify future opportunities for greater functionality through intelligent access to Ferrero products and the coordination of our resources.

Before identifying these opportunities, it is important to understand the current state of Ferrero's sustainability strategy with respect to the three pillars of sustainability; environment, economy and society, as previously identified. With our first Sustainability Report launched in 2009, we have continued to produce these reports on an annual basis. We also launched our first Human Rights report in 2021, which further acknowledges our commitment to the United Nations SDGs. The intention of these reports is to ensure every point of Ferrero's value chain aligns with our company values, as well as the internal and external sustainability challenges that we need to be accountable for from an environmental, economic and societal perspective.

Ferrero produces our annual Sustainability Report in accordance with the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines which were created in 2006 and are regularly reviewed for continued relevance to evolving challenges. As stated on the Global Reporting Initiative website, "the GRI Standards enable any organization – large or small, private or public – to understand and report on their impacts on the economy, environment and people in a comparable and credible way, hereby increasing transparency on their contribution to sustainable development" (*Global Reporting Initiative, 2023*). It is important for Ferrero to

continue our voluntary reporting and involvement with external validation sources to ensure accuracy and credibility. It is also vital that we identify new areas that we can measure ourselves against, which will be outlined in more detail at a later stage of this brainstorm proposal.

In 2009, Ferrero received a C+ rating of GRI application level for our first Sustainability Report. We stated in this report that our aim was to achieve a B+ rating by the GRI within two years (*Ferrero, 2009*). In 2011, we earned an A+ rating of the GRI application. It is important to clarify that this rating is only based on our reporting level and is not indicative of Ferrero's achievement towards our sustainability objectives outlined in the reporting. However, we should view our increased reporting capabilities as a positive and necessary step in continuing to measure and improve the effectiveness of our sustainability strategy year over year.

In shaping our future sustainability strategy, it is vital for Ferrero to become familiar with the four root causes of unsustainability and identify the challenges that Ferrero faces in overcoming these obstacles throughout our entire value chain. We shall focus on the four root causes as outlined by sustainability consultant and creator of Sustainability Illustrated, Alexandre Magnin, which are identified in the list below (Magnin, 2013). There is no ranking of importance for the list, however, the first three are linked with environmental challenges and the fourth is linked with societal challenges.

- 1) Relatively large flows of materials from earth's crust
- 2) Accumulation of substances created by society
- 3) Physically inhibit nature's ability to run natural cycles
- 4) Barriers to people meeting their basic needs worldwide

In order to understand how to overcome these challenges, we must reflect upon how the global footprint of Ferrero fits within the four root causes of unsustainability as outlined by Magnin. The first two challenges listed by Magnin are interconnected for Ferrero. The extraction of materials from the earth's crust and accumulation of substances created by society relate to Ferrero's dependence on fossil fuels and production of carbon emissions at numerous points throughout our value chain. While we have made strides in these areas over the last decade, we have not met our goals and therefore, we must re-evaluate our approach to be more efficient and effective in the future.

An outcome from our 2011 report was that our CO2 emissions decreased by 14% by the end of 2010 and our primary energy consumption decreased by 7% (*Ferrero, 2011*). This relates to the target we set for ourselves to decrease our CO2 emissions by 40% in 2020. We did not achieve this target, which identifies a key area of opportunity for Ferrero to focus on over the next decade; to cut our carbon emission at every point in the value chain. We have identified new carbon emission targets for 2030, with support from the Science Based Targets initiative (SBTi). The new targets aim to reduce emissions by 50% through a two-step approach. As stated in the 2020 report, "the first step is to formally document our suppliers' carbon intensity for our main materials so that we can work together to set reduction targets and monitor progress" (*Ferrero, 2020*).

To achieve carbon neutrality, Ferrero needs to continue focusing our efforts on renewable energy sources and energy efficient technology. This journey will require drastic change management and innovative new ways of thinking and doing business. These changes are necessary to future-proof our business and give us a competitive advantage in the market and ensure we stay compliant with the more stringent energy regulations on the horizon. Moving

away from carbon reliance will lead to increased innovation and allow us to cut down on our utility costs and increase our net savings.

The next sustainability challenge identified by Magnin is physically inhibiting nature's ability to run natural cycles. Ferrero plays a large role in this issue through our sourcing of raw materials, which means we have a large responsibility and opportunity to make a positive impact on this important environmental challenge that society is facing. This aspect of our business has come under immense public scrutiny in the past. We must continue to improve our sourcing of raw materials to meet environmental and societal sustainability challenges, as well as growing awareness and pressure from consumers and regulators.

Ferrero has learned a great deal from our past missteps and has taken considerable action to improve our raw material sourcing. Some of our key learnings and areas of opportunity have come from raw material traceability, certifications, and increased visibility of our supply chain partners. Palm oil and cacao are two of Ferrero's most used resources, and therefore, we must take accountability for ensuring that we source them in an ethical way from an environmental and societal perspective. Traceability has allowed us to have increased visibility throughout our supply chain so we can understand where our materials come from. As stated in our 2021 Sustainability report:

"Traceability is an essential building block of a fair and sustainable supply chain. We can meet our commitments for quality and responsibility only if we know where our raw materials originate from and how they were produced. We obtain our raw materials from a multitude of smallholder farmers and we need to identify and understand the issues they face, and so be able to provide the right support. We expect our suppliers to support this commitment by being open about their activities and those of their own supply chains" (*Ferrero, 2021*).

As we know, the sourcing of raw materials such as palm oil and cacao can lead to deforestation. It is Ferrero's responsibility to know who and where our materials come from and ensure that our consumption is not leading to deforestation or negative effects on ecosystems or local communities. In recent years, we started using cutting-edge satellite imagery to ensure Ferrero and our supply partners are not contributing to deforestation or land degradation. The satellite imagery allows us to check in real time if there have been any changes to the land of our supply partners. If we notice changes, we can intervene immediately and involve the necessary authorities. This is a business case example of how innovative technology can move us forward.

All of our suppliers must abide by our supplier code of ethics, therefore, they are accountable when they do not meet the standards. We conduct regular risk assessments of our partners. The higher the risk, the more understanding and intervention is needed from Ferrero and our certification partners to mitigate any potential risk within our supply chain. By using the external EcoVadis responsible-sourcing platform, we can assess our vendors to ensure we are all aligned in our mission of sustainability. We believe these steps will help us to ensure Ferrero and our value chain are not physically inhibiting nature's ability to run natural cycles.

While we have already seen a positive impact on Ferrero's public image due to our sustainability efforts related to the sourcing and traceability of raw materials, we must ensure we understand the broader effect of these efforts. It is imperative that we understand the rationale as to why we need to continue striving to do better. While the increased public perception of our brand is a positive outcome, we know that these efforts are not for our brand image, but rather to improve our sustainability as a company from an environmental and societal perspective. With each passing year, consumers and regulators are becoming more stringent with sustainability

standards. By getting ahead in these areas, we will be in a better position to serve our consumers and adhere to sustainability regulations. Our increased compliance and risk mitigation will put us in a prime position to be sustainability leaders within our industry and align our actions with our values.

The last root cause of non-sustainability listed by Magnin is creating barriers to people meeting their basic needs worldwide. As a global company that is active in over 55 countries with 40,000 employees, this issue is of utmost importance to Ferrero. As previously mentioned, Ferrero took a step forward in strengthening our commitment to social issues through the release of our first Human Rights Report in 2021. Similar to our Sustainability Report, the Human Rights Report allows us to measure our performance in the key areas related to social and sustainability challenges.

The Top 10 Area of Focus Identified in Ferrero's Human Rights Report are as follows:

- 1) Child protection and no child labor
- 2) Forced labor
- 3) Fair wages
- 4) Working hours
- 5) Diversity and inclusion
- 6) Freedom of association and collective bargaining
- 7) Health and safety
- 8) Privacy
- 9) Environmental related human rights issues
- 10) Rights relating to consumer health and responsible marketing

In the opening statement of the report our CEO, Lapo Civiletti, states that, "the issues are complex, interconnected and often indicators of wider systemic concerns such as poverty, inequality, or poor education" (*Ferrero, 2021*). This point highlights why it is important to use reputable external resources as a guide for keeping our objectives aligned with broader causes. The United Nations Guiding Principles on Business and Human Rights (*United Nations Development Programme, 2022*) serves as our guide in identifying the top human rights priorities for Ferrero.

Ferrero needs to take accountability for ensuring that we are not hindering the ability of our employees and value chain partners from meeting their basic needs. Taking this a step further, it should be our aim as a company for our employees to do better in life as a result of being a Ferrero employee through offering strong wages and benefits and a good working environment.

For our value chain partners, they are contractually obligated to sign and abide by our supplier code of ethics, which puts standards in place to protect the people involved at every step of our value chain, whether they are direct Ferrero employees or not. We encourage our partners to pay fair market wages and we have a zero tolerance policy for any form of labor abuse such as child labor. As stated in our first Human Rights Report, "with a focus on women and vulnerable

groups, we are supporting farmer collectives in a range of countries to build economic resilience through crop diversification, women's empowerment and financial literacy, for instance" (*Ferrero, 2021*). It is our aim that everyone involved in Ferrero's value chain, whether direct employees of Ferrero or not, are better off because of their association with our company.

The other consideration of our human rights priorities is to ensure Ferrero's business is not harming the world around us. We have already touched upon the key environmental challenges that Ferrero must be accountable for, so we will now consider the human health and safety impact of our business. Ferrero's beloved chocolate and confectionary products are consumed all over the world by people of all ages. Product quality and safety is of utmost importance to our business. To ensure the wellbeing of our consumers, it is important that we adequately market and clearly label our products to give consumers the opportunity to fully understand what they are consuming.

According to a recent study by McKinsey, "half of consumers call healthy eating a top priority; one-third say sustainable eating is too. But to satisfy consumers' commitment to eating more healthily, food producers and retailers need to get innovative" (Grimmelt, A. *et al.*, 2022). Ferrero needs to act now to keep up with the demands of a more health conscious and sustainable-minded consumer base. While our products are not considered health-focused foods, we can make our products in the healthiest way possible, while still preserving the quality and taste that our consumers admire.

The McKinsey survey also states that the majority of people surveyed prioritize eating healthy over limiting their environmental impact (Grimmelt, A. *et al.*, 2022). This is an interesting insight into the current mindset of society. This information shows that while consumers care about sustainability, they are more concerned with their own health. However, that does not mean they do not care about sustainability. US consumer spending on sustainable products increased by 20% up to 128.5 billion dollars in 2018 and by 2021 that number was estimated to be 150 billion (*Taylor, 2018*).

These trends highlight a large opportunity for Ferrero to establish itself as a health-conscious and sustainable brand that consumers should feel confident in trusting and supporting. Through proper marketing and education, Ferrero can serve as a catalyst to push our consumers in the direction of caring equally about both health and sustainability. When it comes to their trust in Ferrero, they should not feel like they need to prioritize one over the other.

A 2022 study conducted by Deloitte revealed the following findings on the consumer outlook of sustainability:

"Nearly one in two consumers either do not know what to trust, or simply state that no business claims on climate change issues can influence how much they trust businesses commitments to sustainability. For those that say they might be influenced, most important would be having a transparent, accountable and socially and environmentally responsible supply chain" (*Archer, T. et al.*, 2021).

Ferrero, as well as other businesses, must rise to the challenge of being authentic and meaningful in our pursuit of sustainability in order to earn the trust of consumers. For Ferrero, this means that our actions need to align with our values and bold ambitions towards sustainability.

A strength that Ferrero can lean into is our partnerships and certifications with external sustainability sources, such as the Ellen MacArthur Foundation. While Ferrero strives to become sustainability experts ourselves internally, it is important for us to also rely on the expertise of

well-established outside sustainability sources. These types of alliances help move Ferrero forward in our sustainability journey and build further trust with our consumer base.

In partnership with the Ellen MacArthur Foundation, Ferrero joined the United Nations Environment Program's New Plastics Economy Global Commitment. This validates our commitment to holding ourselves accountable for our 2025 goal of having our packaging 100% reusable, recyclable or compostable, as outlined in our most recent sustainability report. With the aim of creating a circular economy for plastic, the New Plastics Economy Global Commitment sets standards and guidelines for companies to take part in solutions that will move the packaging industry towards a more sustainable future (*United Nations Environment Programme, 2022*).

Ferrero has made great strides in our sustainability reporting through our annual reports. Our strength in reporting puts us in a good position to identify progress and areas of opportunity. While the capability to conduct effective reporting is important, it is our business decisions and behaviors around sustainability that are most impactful. It is important for Ferrero to ensure that our marketing and reporting are not consuming our focus on sustainability. This is where a key area of opportunity comes into play for Ferrero; education.

Ferrero is on a path of value creation through sustainability and for us to continue to the next stage, we must ensure our entire organization is aligned with this mission. While reporting and certifications are integral to our sustainability objectives, it is important that our entire organization understands why we are on this journey. It is not enough to check boxes. By taking a holistic approach to embedding sustainable thinking into all that we do, we can truly become a sustainable company.

At this stage in Ferrero's sustainability journey, our efforts and expertise are confined within our Sustainability function. While we often celebrate and market the work done within this team, we do not have current parameters in place to spread the accountability for sustainability across our entire organization. To holistically integrate sustainability into the culture at Ferrero, we need to create a sustainability education plan that inspires employees to care about sustainability.

The education plan that we are proposing is a cross-functional project with a one-year roadmap timeline for planning and implementation. Each function will have a representative on the project team, with members from the Sustainability and Training & Development functions leading the project to shape the education content and delivery methods. Ultimately, each employee will have to go through the sustainability training on a yearly basis. The project team will collect regular feedback on the training and integrate new sustainability information on a regular basis to continually improve the quality of the education being provided.

In addition to cross-functional sustainability education, we are proposing that each function is required to have at least one annual KPI linked to sustainability. These goals will be defined through an annual mapping of strategic goals through the Sustainability Balance Scorecard (SBSC) method. External case studies indicate that "SBSC systematically focuses on ecological, economic and social chances and risks and thereby secures the company's future existence" (*Falle, S. et al., 2016*). This will allow us to operationalize and align our cross-functional objectives into one mission of improved sustainability from an environmental and societal perspective.

While Ferrero has many foundational elements in place to be a sustainable company, we need to further embed sustainable thinking into our company culture. Through sustainability education for all employees and integrating sustainability KPIs into the strategic objectives for every

function within the organization, we are setting ourselves up to further build on the legacy and tradition of Ferrero's storied past.

If Ferrero and our employees do not understand why we need to care about sustainability, it will be easy for us to regress backwards from the innovation and change that pushed us forward to where we are today and where we will go in the future. By building upon our strong legacy as a company, Ferrero can implement a sustainability strategy that carries us long into the future.

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