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The sustainability positioning of an imperfect giant

Stewart Investors
Sustainable Funds Group

In early December 2020, activists from Greenpeace deposited a big sculpture of Nestlé’s* logo, made entirely of plastic waste from Nestlé’s products, in front of its headquarters, alongside a banner with a powerful simple message - ‘Stop feeding the world with plastic’[1]. In the 2020 the ‘Break Free from Plastic’ movement’s brand audit, Nestlé maintained its undesirable position at number 3[2]. And as a recent report from the Ellen MacArthur Foundation reminded us, Nestlé’s use of recycled plastic for its packaging needs has remained stuck at 2%, far from its 2025 target of 30%[3].

Providing necessary goods and services

One of the ways we think about our investment universe is to look for companies that offer necessary goods and services. The recent pandemic provided a useful reminder of what this meant as consumers globally rushed to stock up on everyday necessities in the face of lockdowns. Nestlé, for example, experienced a significant surge in demand for its products, and continued to supply its customers, even while facing disruptions in many areas of its operations.

Another significant but underappreciated aspect of Nestlé’s global reach is its sourcing breadth and manufacturing footprint. As the world’s largest food company, it works directly with over 550,000 farmers globally[4] and its sourcing decisions, as well as behaviour, directly impact many of the Sustainable Development Goals (SDGs), ranging from human development to climate change. Further, with more than 400 factories in 86 countries, over half of which are located in emerging markets, and 291,000 employees, it is very much embedded in the fabric of many local communities where every person it interacts with is a likely consumer[5]. It is easy to forget that it sells over a billion products *every day*[6]. This is not a faceless trading behemoth hiding in a tax-sheltered alpine home. Over the years, the company has faced many issues in several markets, and has had to confront and resolve them to the satisfaction of all stakeholders. A good example of how this manifests itself is that in 2019 over 80% of its factories globally achieved zero waste[5].

However, the company is far from perfect. For the world’s largest food company, there is a lot in Nestlé’s product portfolio that is of questionable nutritional value, despite the company topping the Access to Nutrition rankings[7]. Thankfully, it is apparent the company recognises this and in recent years it has commenced a significant transformation effort to reorient its businesses towards products offering better nutrition and healthier outcomes.

Imperfect giants can contribute towards bigger societal shifts

There is certainly an argument for allocating society’s savings to companies bringing fresh product ideas, technology and new ways of solving problems. However, for achieving impact on a planetary scale, without significant improvement from the bigger companies, we do not have much hope of averting the tragedy of the commons[8], on this planet we call home. In this context, some of the giants, who desire to, can make a material difference.

As an analogy, it might help to look at the sustainable human development framework that we use to guide our investment philosophy. This is a chart (on page 2) of the ecological footprint per capita of countries, mapped alongside the level of human development. The planetary boundary is the bottom-right shaded section. As is clear from this chart, if China continues to follow the United States’ resource intensive model of development, it will not matter that an advanced smaller nation like Denmark is punching well above its weight.

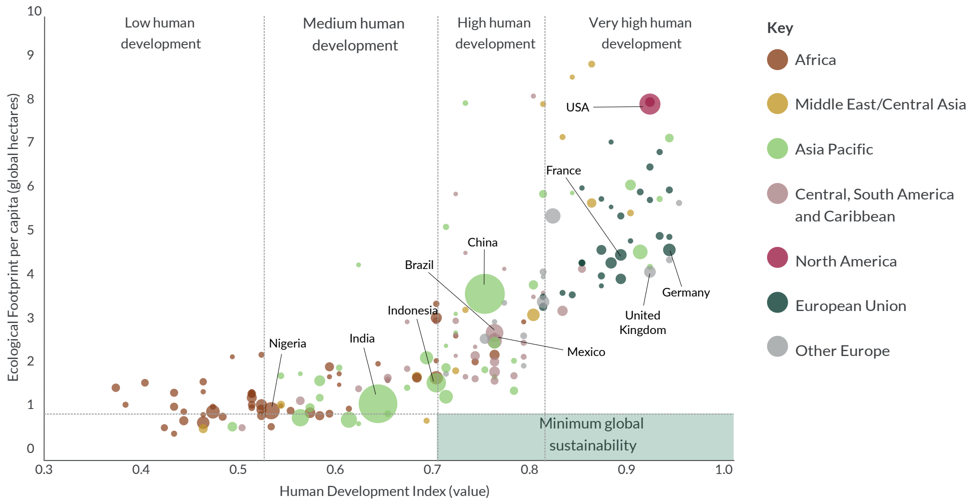
Nestlé is a company with a long-term time horizon, able to recognise these risks, embrace and invest in change, and do it with rigour and at scale, and unlike fashionable sustainability darlings, it sits in a neglected corner of the investment universe.

Concerns about greenwashing

For companies with considerable marketing prowess, greenwashing is something we have to be aware of when analysing sustainability credentials. In addition to our own research, we educate ourselves with work from non-traditional sources, like non-governmental organisations (NGOs) and consumer protection groups. Over the years, we have also commissioned

Sustainable development

Global Footprint Network - Human Development Index and Ecological Footprint of countries



Source: Global Footprint Network, 2021 National Footprint and Biocapacity Accounts www.footprintnetwork.org and https://data.footprintnetwork.org/?_ga=2.218470873.137653673.1614780619-1273534926.1610728620#/sustainableDevelopment?cn=all&yr=2017&type=BCpc,EFCpc.

Latest country data for the Ecological footprint is 2017. Graph scale is limited to 10 on the ecological footprint axis and excludes Luxembourg and Qatar.

independent third-party research to look into issues relating to the sustainable sourcing of soya and palm oil, deforestation and plastic packaging. So far, the company scores reasonably well, is transparent in its reporting, willing to discuss these issues, and shows a desire to improve further.

It is welcome that the company aims to help 50 million children lead healthier lives, improve 30 million livelihoods directly connected to its business activities, while striving for zero environmental impact[4]. Some of these, like the environmental impact, or sugar content in foods, are easy to measure and hold them accountable to. However, the supply chain is a lot harder, when it is apparent that so many households that depend on agriculture do not eke out a living wage. To help us understand this better, we have recently commissioned external research to investigate sourcing practices in coffee. This is an ongoing exercise and we continue to look for evidence of real change in difficult areas, rather than simply relying on glossy sustainability reporting.

What about the risks?

The biggest risk is that consumers turn away from its products due to their content, packaging, or sourcing practices, and the company is slow or unable to implement the necessary change.

The best companies are always on a journey of evolution. If Nestlé was not, the company would not have lasted for 150 years. We believe that companies who are demonstrating a willingness to evolve and transform, despite their size and successful past can deliver positive investment outcomes and contribute positively towards long-term sustainable development.

Mohan Gundu

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Investment terms

View our list of investment terms to help you understand the terminology within this document.

*Source for company information: Stewart Investors investment team and company data. For illustrative purposes only. Reference to any companies mentioned in this communication is merely for explaining the investment strategy, and should not be construed as investment advice or investment recommendation of those companies. Companies mentioned herein may or may not form part of the holdings of Stewart Investors.

[1] Source: Greenpeace. 8 December 2020.

[2] Source: Break Free From Plastic, Brand Audit Report 2020. https://www.breakfreefromplastic.org/globalbrandauditreport2020/

[3] Source: Ellen MacArthur Foundation, The Global Commitment 2020 Progress Report. https://www.ellenmacarthurfoundation.org/resources/apply/global-commitment-progress-report

[4] Source: Nestlé, Creating Shared Value Progress Report 2019.

[5] Source: Nestlé, Annual Review 2019.

[6] Source: Company data.

[7] Source: Access to Nutrition Initiative – Global Index 2018 (latest). https://accesstonutrition.org/index/global-index-2018/scorecards/nestle/

[8] Tragedy of the commons: where shared environmental resources are overused and exploited, and eventually depleted in the pursuit of personal gain.

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