



Direct sourcing of fresh produce

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Eurofruit Congress
Southern Hemisphere



Agenda

1

Direct Sourcing Trends

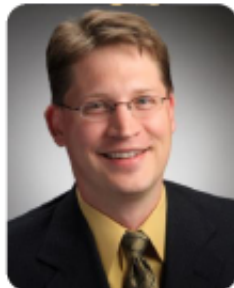
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Supply Chain Cost

3

Sustainability

Global retailers are increasing focus on Direct Sourcing to optimise the supply chain



Context Partner, Mark Nelson

...When Trends Collide

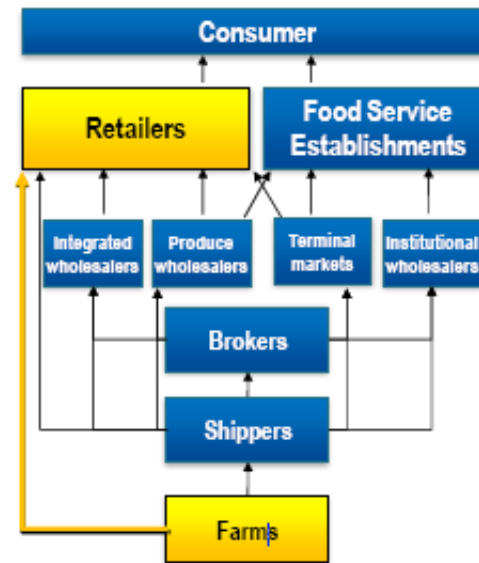
Tesco recently discussed plans to rationalize its supply base and source more fresh produce directly; to become "a more vertically integrated business." Recent developments in *direct sourcing*, such as this announcement by Tesco or by Wal-Mart opening a direct buying office in Yakima, WA (2009), provide notice on how large retailers are dramatically reshaping fresh produce supply chains.

Through *direct sourcing*, retailers locate direct buying offices near major production areas to establish their own relationships with growers and put infrastructure in place to work with them directly; in effect bypassing shippers. Motives are both directly and indirectly economic: reduce distribution cost and establish proprietary systems to ensure food safety risk and traceability are being managed.

Verticalization is not new. In the U.S., many large retailers have already worked past produce brokers and percent of produce flow through terminal markets has been halved over the past 40 years. While shippers were an important champion of those historical trends, they now are in the cross-hairs of direct sourcing rationalization.

Meanwhile, *local sourcing* is becoming a permanent fixture within the year round supply of fresh produce. Initially predicated on fuel cost savings, the trend towards consumers buying *local grown* produce has morphed into satisfying their wants for supporting community, protecting the environment and advocating food systems. Sales of local produce are growing fast.

Forty years ago, ~70% of fresh produce flowed through terminal markets. Today, terminal markets account for less than 30% of U.S. fresh produce.



Context adapted from Roberta Cook, UC Davis

Retailers are being forced to reconsider their traditional approach to optimize cost through fewer and larger suppliers in favor of driving top line growth. *Local grown* is demonstrating that

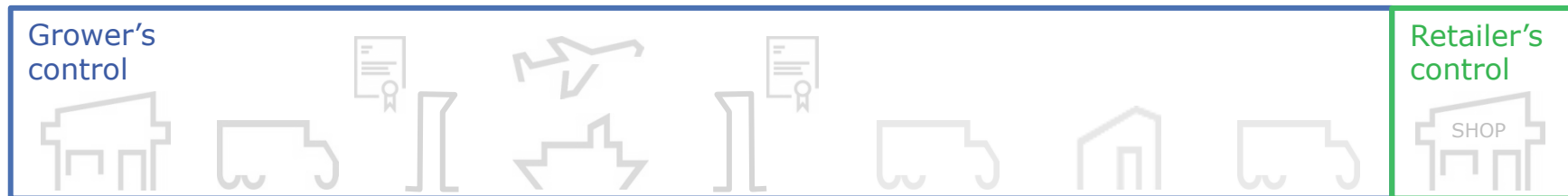


Growers can take control of the supply chain and deliver directly to the retailers

Wholesale (Optimize FOB or FOT Logistics)



Retail (Optimize Logistics Direct to Retailer)



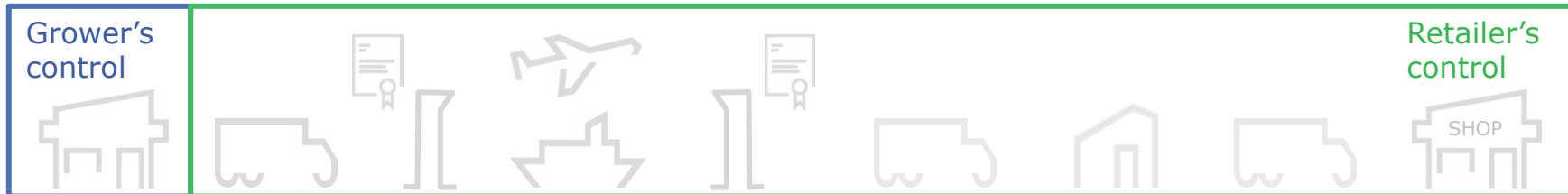
Ensuring grower exporters maximize their revenue and profit when fulfilling this need, while reducing cost and increase quality at the same time.

Retailers can take control of the supply chain and source directly from the grower-exporters

Wholesale (Optimize FOB or FOT Logistics)



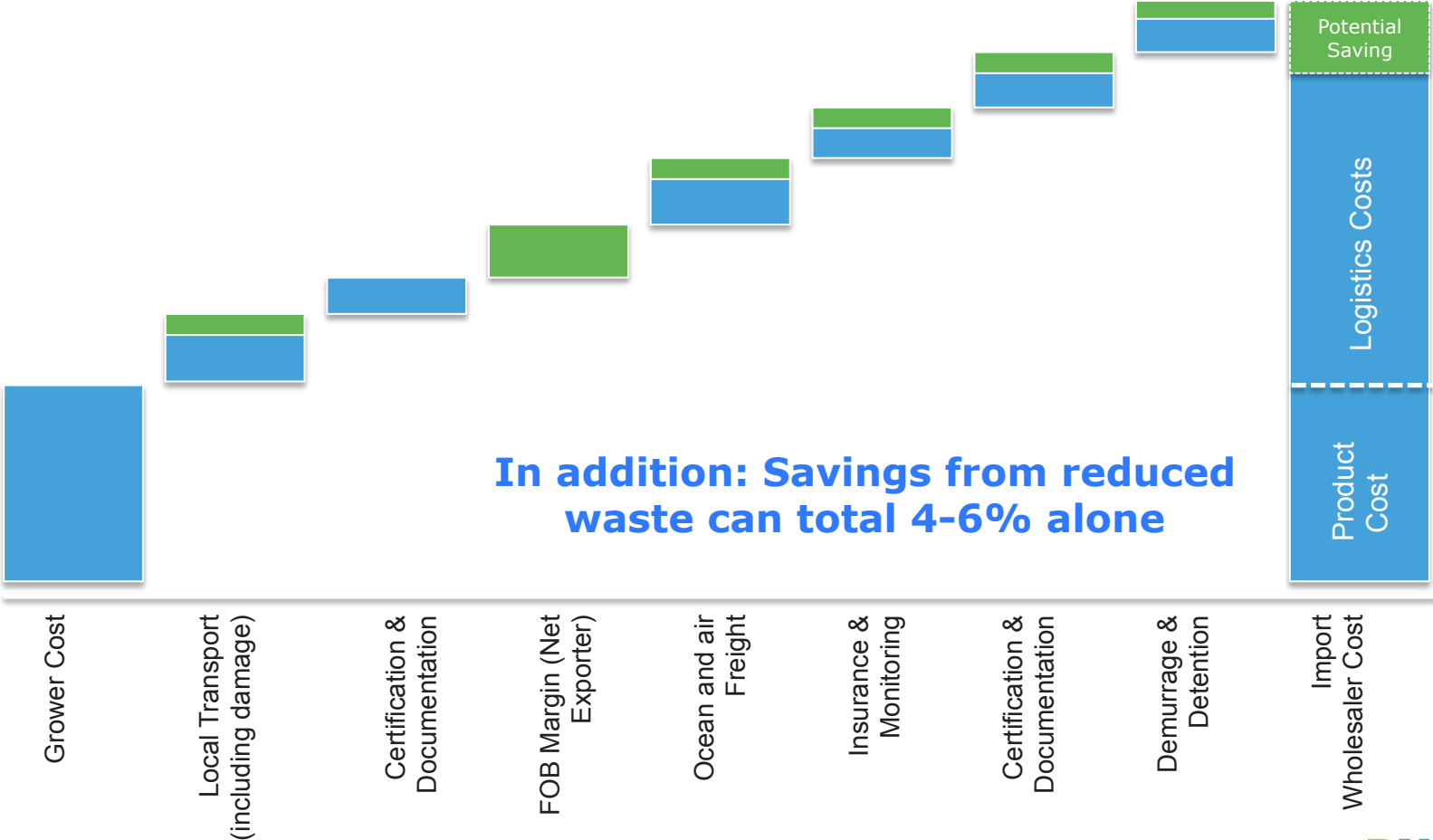
Retail (Optimize Logistics Direct from Farm)



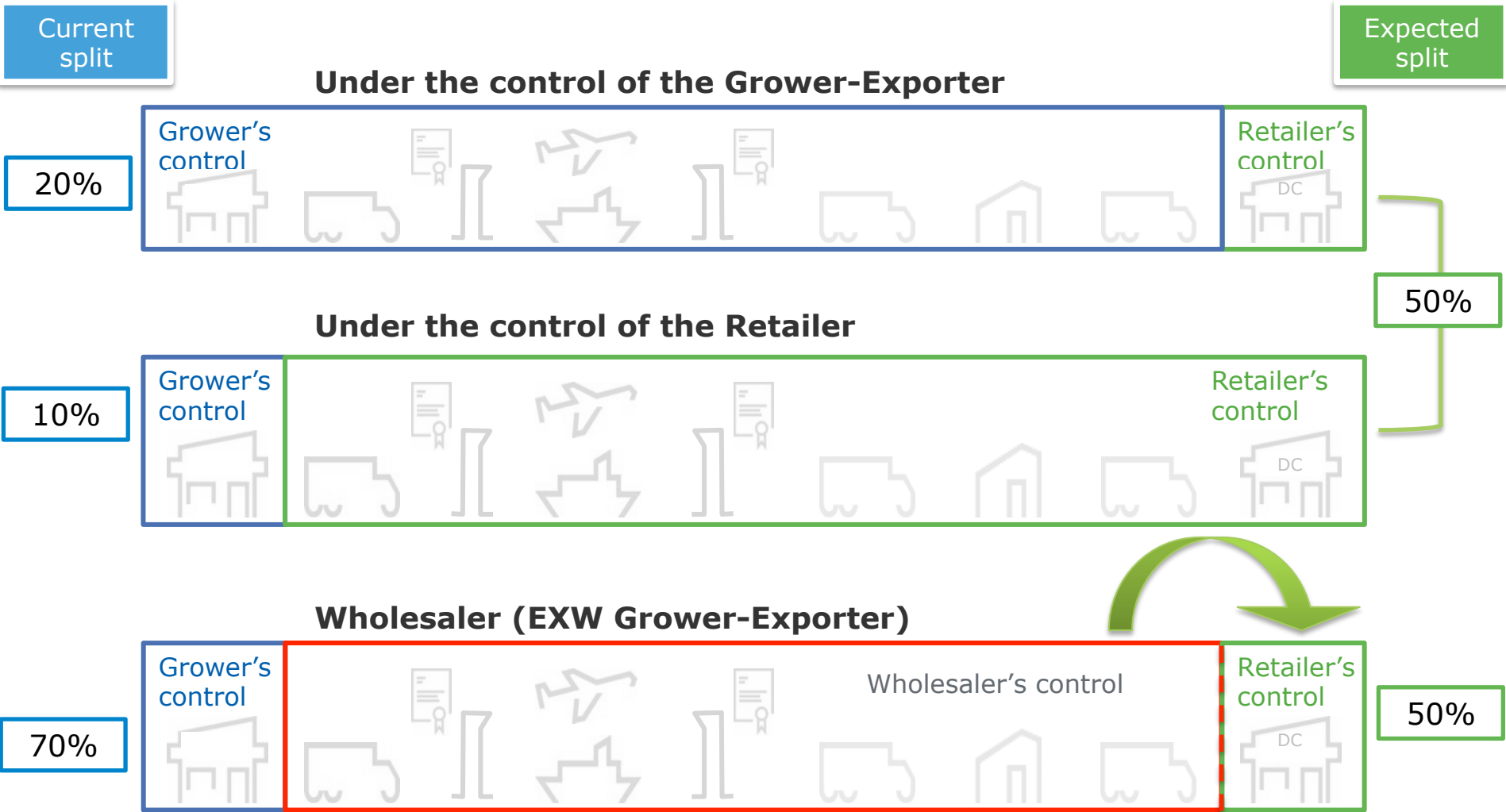
Ensuring retailers can get highly perishable, high value, seasonal fresh produce all year round, reducing supply variation due to season, weather and other natural disturbances.

Financial benefits are realized from increased visibility and control across the supply chain

Areas where 10-15% cost reductions are typically realized



The share of direct sourcing is expected to increase to more than 50%. For major retailers the share of fresh produce sourced directly from grower-exporters will be higher



Increased focus on sustainability driven by business needs and legislation

Sustainability trends

- **Investment** in sustainable business programs will be between 50 and 100 percent higher in 2013 than in 2011. *
- **Sustainability-related strategies** are a necessity to be competitive believes 57 % of companies (more than 500 employees) (MIT Sloan)
- **Suppliers** which are acting in a sustainable way are preferred by 66 % of companies (SCM World)
- Sustainability is slowly reaching **procurement** decisions
- **Packaging** seems to be the new hot green matter in the supply chain
- Companies do not wait for **government legislations** but lead the way and move from compliance to efficiency

Legislations

- **Europe:** From the 1st of January 2012 any airline operating in the EU will be required to be a part of the Emission Trading Scheme (ETS) which will force carriers to pay for every tonne of CO2 produced above a fixed limit.
- **US:** Several regional cap and trade programmes. Different legislation on higher efficiency and higher weight limits is likely to be passed on trucks
- **China:** "may" introduce an emissions trading scheme in six regions in 2013 which may will be expanded to a national scheme by 2015
- **IMO:** Energy Efficient Design Index + carbon market mechanisms + future reductions of sulfur limits. EU putting pressure on IMO to get to a fast decision

Sustainability is especially high on the agendas of the major retailers

“Emissions in our supply chain – in growing, manufacturing, processing and transporting the goods we sell – are at least ten times those of our own business. Recognising this, we have set ourselves a goal to reduce carbon emissions from the products we sell by 30% by 2020.”

- Philip Clarke, Group CEO, Tesco

“ There will be no part of this company, anywhere in the world, that doesn't contribute to making Walmart more sustainable.”

- Mike Duke, President and CEO, Walmart

Carrefour aims to meet the ambitious goal of reducing its energy consumption by 30% by 2020 (compared with 2004).

- Carrefour, 2010 Sustainability Report

Retailers are looking beyond their own stores and facilities to control reduction of carbon emissions in the supply chain

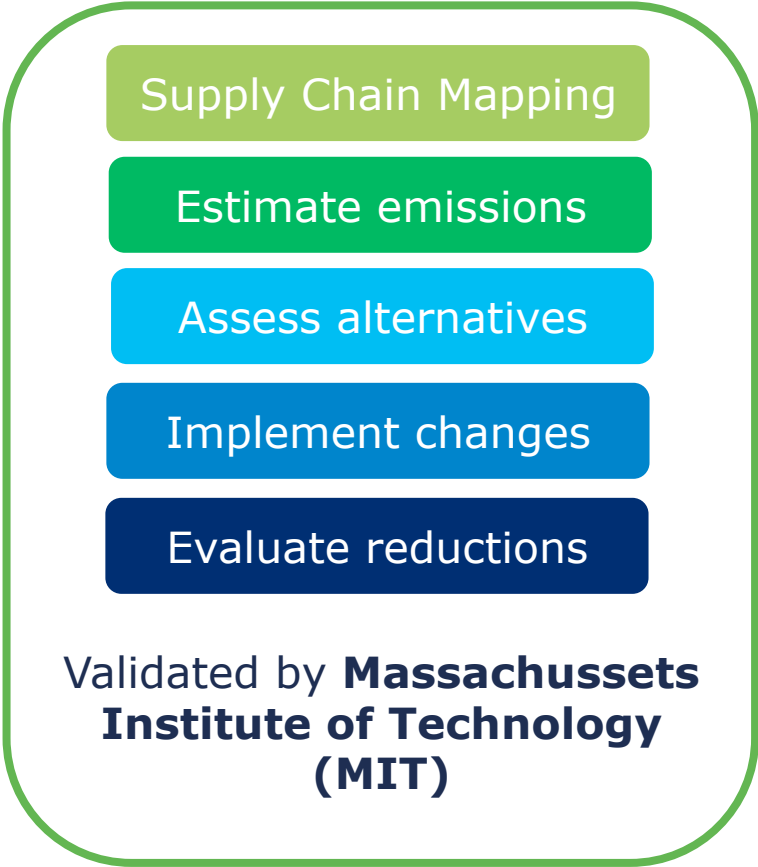
- ✓ Retailers focused first on reducing emissions in their stores
- ✓ Now looking at the end-to-end supply chain for further emission reductions
- ✓ Less emissions usually mean less costs



Containership
124 g CO₂/TEU.km
(reefer container)*



Reefer vessel
205 CO₂/TEU.km**

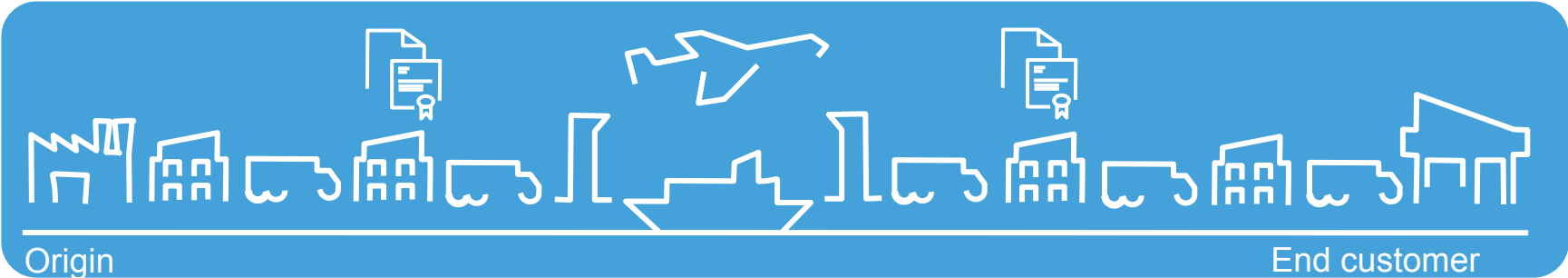
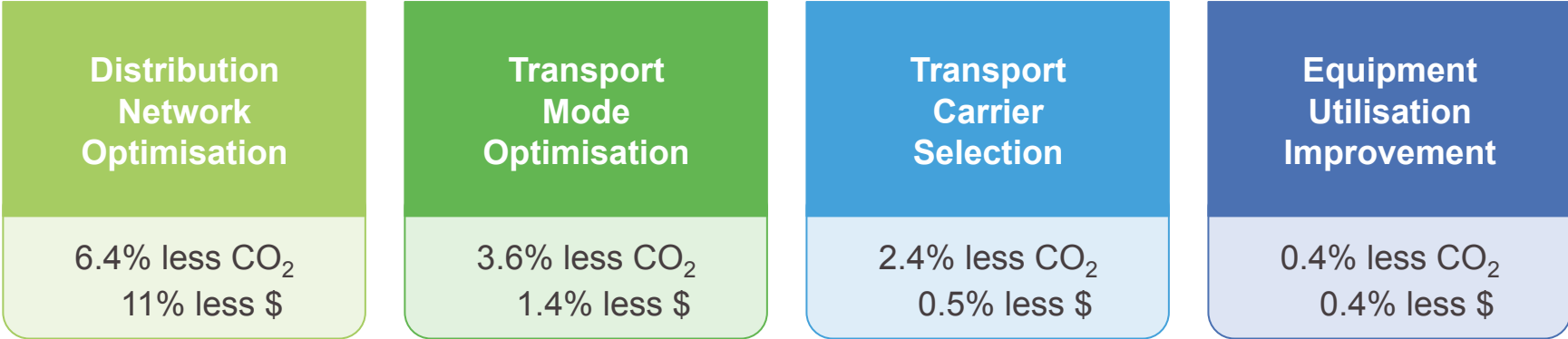


* Clean Cargo Working Group (70% containership carriers) South America – Europe 2010 (operational data)
** Specialised reefer fleet (>year 2000, < 500 ft³) based on design data (operational not available)



End-to-End supply chain solutions with visibility from “Farm to Fork” is key to drive cost and CO2 reductions

Identified CO₂ and supply chain cost reduction potential in excess of 10%



Greener is cheaper in the supply chain

¹¹ Case study: North American Retailer



Retailers can realise much more than financial benefits from taking control of the supply chain and source directly from the grower-exporters

Wholesale (Optimize FOB or FOT Logistics)



Retail (Optimize Logistics Direct from Farm)



Retailers will use direct sourcing to control carbon emissions in the supply chain and to control that suppliers are complying with sustainability and CSR standards set by the retailer



Thank you

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