

101st FEMA Annual Meeting: Fresh Thinking on Sustainability

Sustainability's potential impact on product life cycles and value chain, from ingredients to manufacturing to store shelf to consumer and beyond



“Today, our businesses need to establish a new level of leadership,” said Joanne Ferrara (ConAgra), outgoing president of the Flavor and Extract Manufacturers Association (FEMA) during the organization’s 101st Annual Convention at the Ritz-Carlton Hotel in Naples, Florida. Noting the year’s theme, “Sustainability: Beyond the Green,” Ferrara continued, “Companies face a choice: We can manufacture our products in a sustainable manner and ensure our actions are understood by the customers and other stakeholders—including communities, regulators and NGOs—or we can remain silent and unresponsive and therefore be seen as ignorant and dismissive to genuine public concern.

“We’ve seen examples in FEMA’s history where being proactive has made a huge difference. Think of our FEMA

GRAS [generally recognized as safe] program and our program on respiratory health and safety. We made ourselves the leaders in resolving conflicts and difficult issues that have had a game-changing effect on our business. Meeting the challenges of sustainability could be the test of this generation of industry leaders. The time is right for some fresh thinking.”

Earlier, in her president’s letter to the membership, Ferrara said, “Sustainability is a broad topic which includes social and economic issues, resource and workforce management, community interaction, and customer and client relations. Sustainability is about ensuring the future growth and success of our business by building and strengthening its foundation. It is about expanding without destroying. It is about entering new and emerging markets with long-term goals of continuous business, and providing for a confident workforce and community, all the while ensuring continued profits.”

At the same time, in introducing the event’s speakers, Ferrara acknowledged that many companies face genuine uncertainty regarding what they can do to make a difference and incorporate these values into their ethos.

The Consumer Perspective

Distinct concepts such as health and wellness, sustainability, natural and organic are highly intertwined in the minds of consumers, explained Arwen Kimmell (The Hartman Group), an expert in the “ways that language is being used to express a variety of beliefs about health and wellness, and the roles that language can play in the ways that consumers participate in [it].” The flavor and food and beverage industries must understand this, she continued. “The way consumers think about health and wellness



Arwen Kimmell

Outgoing FEMA president Joanne Ferrara (ConAgra).

Emerging Food Trends

According to Arwen Kimmell (*The Hartman Group*)

- Heritage and heirloom foods: animal products, grains, etc.
- Raw food in its natural form
- Linking back to food traditions
- Looking outside traditional ethnic cuisines

is not just physical. It's also about mental, emotional and spiritual health. It's about the environment.”

Consumer types: Kimmell explained that consumers will behave differently in terms of the kinds and amounts of products they will buy depending on how involved they are in the health and wellness arena. These consumers fall into three general categories: Core, mid-level and peripheral consumers.

Core consumers are those with the most engagement in health and wellness. They tend to focus on sustainability, authenticity, knowledge and the motivation behind the products they use and the companies that manufacture them, Kimmell explained. They are also early adopters, trend-setters.

Mid-level health and wellness consumers—the largest of the three groups—are interested in the concept's promise, are engaged, involved and seek out expert opinions. They also seek some level of convenience and experience.

Finally, peripheral consumers represent those with a mere budding interest in the concept of health and wellness. They are aspirational, Kimmell said, thinking they should eat better and be greener, but ultimately proving inconsistent in purchases. This least engaged group is also the one that is most moved by factors like brand and price.

The types of products launched to these varied groups must address the specificities of each, Kimmell explained. As these consumers move from peripheral to core they are moving from a reactive approach to health and wellness to a preventative stance—for example, moving from the use of medicine to the use of food and vitamins to maintain oneself.

Changing rules: The health and wellness boom has coincided with—and perhaps even signaled—a shift in societal structure, Kimmell explained. This represents a move away from structure, rules and top-down attitudes to a more open outlook featuring various value systems, identities based outside of mere class and a change toward a focus on democracies, multiple value systems, identities based on factors other than class, and evolving attitudes toward experience and consumption.

“The rules are different now,” said Kimmell, of the implications for the industry. “We don't think about breakfast, lunch and dinner the same way we used to. We think about snacks.” Noting how one interviewee had sushi for breakfast, Kimmell reminded the audience,

“Don’t make assumptions about how consumers are going to use your products. Don’t tell people what to do. They like to explore and be creative with what they do with a product.”

Ideas of health, too, have shifted, migrating from low-in concepts (fat, calories, etc.) to added fiber and functional foods. Today, she said, the keywords are: fresh, real and less-processed. Real food is whole food, such as fruits and nuts, foods with built-in nutrition and no additives. Kimmell added that, in the consumer’s perception no matter what the reality, fresh equals healthy and rich in nutrients. Real food, meanwhile, represents a desire for ingredients that can be readily identified on short, clean label statements. Finally, recent calls for less processed products comes from a desire to limit additives, including color, preservatives, and artificial and natural flavors. In short, she said, consumers have a perception that they want to shift from “industrial food” to “real food,” despite whatever the realities of those distinctions are.

Kimmell repeatedly returned to the idea of perception vs reality. In recent years, consumers have begun to distrust sweeteners, particularly those “hidden” in non-sweet applications such as savory. Sweet, said Kimmell, often equals unhealthy in the consumer’s perception. And so a well-publicized trend toward new natural sweeteners is underway. Interestingly, she added, global flavors are perceived as healthier and less processed than domestic offerings. As Kimmell put it, “It just *seems* that way.” In addition, she said, cravings for experience (the purchase, preparation and enjoyment of food) has started a reimagining of convenience food that is less processed and primarily acts as a helper/shortcut for home cooks to remove difficult steps that stand in the way of home cooking.

Sustainability: Sustainability acts as another layer upon these other consumer demands, Kimmell said, encompassing the implications of the entire life cycle of a product—from farm to factory to packaging to sale (“How am I experiencing this product at shelf?”) to use (enjoyment) to disposal. Kimmell broke down the overall sustainability concept into four key tenets: economic, social, environmental and personal benefit.

This last element centers on motivating factors such as saving money or feeling good. And so animal welfare, fair trade, etc., have become key parts of sustainability. Kimmell encouraged companies to tell stories about their workers, sources, etc. Such stories create a strong connection between the consumer and the product they’re purchasing. Consumers want to know about organic sourcing as they tend to want to avoid hormones. They will likely want localized sourcing in order to minimize overall carbon footprint and to boost freshness. Locality has a role to play beyond sustainability, Kimmell said; “local” allows for a product to have a geographic identity, a specific place from which it’s sourced.

Perhaps the biggest factor in sustainability is the use of natural and organic as concepts in the marketplace. Both are seen by the health and wellness consumer as complementary. Organic, Kimmell distinguished, is what happens

at source, on the farm. The market for organic goods has stabilized, she said. Even in the midst of a recession, most consumers are spending at least the same, if not more, on organic products. Pricing does present a barrier, she conceded, to peripheral consumers.

Natural, meanwhile, is what happens after harvest—the manufacturing process. Ideally, Kimmell said, natural should connect to “real and healthy.” It should represent an effort to take out processing steps in product development. In reality, natural is associated with some use of artificial flavors, colors, etc., all of which are seen as the opposite of consumer perceptions of health. Ideally, said Kimmell, health and wellness consumers want natural products that are healthy and whole—minimally processed. Consumers evaluate naturalness by a lack of artificiality and additives, and a short, clean ingredient line with readily recognizable ingredients. Currently, these consumers are not convinced by use of “natural” on food labels. There is a true disconnect on that count. “They want it to mean something, but are convinced it’s a marketing term,” said Kimmell.

The future: “‘Clean’ is the next big marketing term,” Kimmell predicted. This concept covers farming, production and processing, and encompasses concepts of fresh, natural, local and easy verifiability. Meanwhile, she said, there are more amorphous concepts coming to the fore: simple, real, sustainable, safe. Because they are related to clean, according to Kimmell’s consumer research, they are important to the message. She uses language maps to chart such consumer language. For instance, clean connects to local, which connects to seasonal. Clean also connects to sustainable, as well as organic, sustainable and safe, fresh, preservative-free and less-processed. Understanding the connections, she explained, can help formulators and marketers.

Kimmell encouraged attendees to “tell these stories,” in part through ingredient lists. Consumers, she said, are interested in stories about companies and products. Disconcertingly, though perhaps accurately, she discouraged the temptation to use “message science.” Fresh, whole and real simply do not jibe with science in consumers’ minds, Kimmell argued, concluding, “Speak in their language.”

The Flavor Supplier Perspective

Nature, people, society and business success: These are the four pillars of sustainability set forth by Symrise AG, explained the company’s corporate vice president of product and safety, health and environment compli-



Helmut Frieden (Symrise).

ance, Helmut Frieden. “If you follow those, you can implement sustainability,” he explained, underscoring the strong link between corporate social responsibility (CSR) and corporate strategy. Frieden explained that his

company is focused on working with customers to create products that enhance consumers' lives. This is in part accomplished through responsible resource management, investment in employees, social responsibility and the setting of realistic goals communicated throughout the company and to its supplier partners and customers. Internally, the tools of sustainability include the corporate compliance department, an integrated management system worldwide, product compliance (ISO), a complaint management system for customers and internal contacts, and a sustainability board consisting of human resources, research and innovation, supply chain staff, investor relations and more. "This creates continuous improvement," Frieden explained, and allows for easier coordination of sustainability activities around the globe.

The result is a system that Frieden says has allowed the organization to reduce water consumption by 3% per year—a significant figure when calculated through to 2020. Such figures are part of a loss statement issued by the company that tracks steps toward climate protection, including CO₂ and water consumption reductions. The company regularly engages in this sort of benchmarking of performance and activities and annually assesses its four global regions for efficiency of resources, sustainability of production, packaging, etc. Symrise has also invited non-governmental organizations (NGOs) and other "external partners" to help in this process, which Frieden believes adds value to the business. "This is really important," he stressed.

In practice, Symrise's sustainability activities include, but are not limited to:

- The development of processes that are low-water, low-energy
- Customer service/understanding to get ahead of the manufacturing process and supply chain for maximum efficiency
- Occupational health and safety environment weeks at sites around the world for improved worker conditions
- Academies for perfumers, flavorists and managers for the continuing education of staff at all levels and the identification of future managers to be integrated into the company
- Safety policies for customers and consumers
- Raw material questionnaires for all suppliers, including packaging and carrier service
- Hazard, risk and security assessments
- Waste reduction
- The setting of quality control specs and traceability activities, including a crisis management team
- Activities supporting a healthier diet for consumers

The Customer Perspective

Sustainability of course encompasses people, quality and the environment, explained Jorgette Mariñez (PepsiCo), but it also includes business success. While sustainable business models seek to ensure that no unnecessary harm



Jorgette Mariñez (PepsiCo)

is committed with regard to processing, human rights, diversity, the environment, etc., sustainable supply chains require further innovations.

To this point, Mariñez highlighted the use of universalized

questionnaires for suppliers across customer companies, a key tenet of AIM/Progress, which “handles initiatives that span the globe across hundreds of procurement categories to ensure its suppliers align to its performance with purpose planks.” Customers are looking to protect their brands and retailers are looking for certain assurances (see **The Retailer’s Perspective**). The affiliated global SEDEX database (Supplier Ethical Data Exchange; www.sedex.org.uk) assists these efforts by providing an online venue in which organizations can share and report on ethical and responsible trade. The system is used by more than 20,000 production sites in 132 countries and across 250 organizations. Members include companies such as Tesco, Cadbury-Schweppes, PepsiCo and Marks & Spencer. The site is secure; information is not shared among parties unless the companies have a relationship. This process works on a policy of mutual recognition: customer companies agree to recognize each others’ supplier audits because they are 95% similar, said Mariñez. Thus, redundancies are eased. She noted, however, that things such as supplier codes of conduct are not universalized; each company handles these independently. Meanwhile, risk assessments can be conducted via third-party auditors. Using these tools, Mariñez concluded, companies can define expectations for supplier conduct.

The Retailer’s Perspective

Finally, FEMA attendees heard from the retailer perspective. Sustainability is a difficult word to define, said John Whalen (Blu Skye) who has worked with Wal-Mart on its sustainability initiatives. Yet the concept also offers an opportunity to innovate and create value. “We are at the beginning of a new age that is as big as the shift from agriculture to industrial,” Whalen noted. This new level of focus on sustainability builds on concepts such as CSR and looks at it from a business value perspective. Every societal problem is a business opportunity, he added. Those embracing this emerging concept seek to reduce



John Whalen (Blu Skye)

their overall environmental impact and, most importantly, decouple consumption from impact on the planet. This essentially melds business value and stakeholder value (society, planet, etc.).

Yet there are still no generally accepted accounting practices for sustainability. But, he assured the audience, this is coming, and flavor houses will be asked to meet those benchmarks.

Whalen stressed the need to understand how macro trends affect business, supply chain and customers. For example, he said, the world population is forecast to reach ~9 billion by 2050 and then level off. Meanwhile, many people in developing regions will lift themselves out of poverty. As they do so, they will increase their consumption of resources, food, etc. In short, Whalen explained, the world will need to double its food production by 2050 or earlier using the same amount of land—or even less—as pressures for responsible development increase. As he put it, razing a swath of Brazilian rainforest is not a bankable strategy. “This will require innovation at every level,” said Whalen.

Today, he added, consumers have a growing awareness of food sources and safety. As a result, they want transparency: visibility in the supply chain. This will create collaboration opportunities for companies to work with each other to develop and compare efforts and methods of improvement. This, he said, echoing sentiments of earlier speakers, will necessitate some cooperation with government and NGOs to achieve legitimacy.

“Winning in this world is going to be different,” said Whalen. In today’s space, everyone operates in an interconnected world.

How do companies accomplish all of this and still have competitive prices and succeed as a business? Currently, pro society or environment actions are not generally pro business, said Whalen. But that will change—quickly. He noted that the flavor industry’s customers’ customers are looking to get greenhouse gases out of the supply chain. Retailers like Wal-Mart have found that the majority of the carbon in their footprint comes from the products on shelves, not internal operations. So, once a company improves its facilities and shipping methods, the next logical step is to move along the supply chain. The goal of these activities is to find the hidden business value.

Whalen mentioned that Wal-Mart understands that consumers are approaching near ubiquitous information on products. This both creates transparency and foments calls for additional openness. And, as he joked, “If you’re going to be naked, you’d better be buff.”

“This is where it’s going,” he added. Already, he noted, Wal-Mart is showing preference for consumer product companies that are focused on sustainability. Furthermore, the organization and others are committed to driving “hidden costs” out of the value chain. While he admitted that the process is going to be tough and at times messy, it’s happening.

In the end, Whalen stressed, echoing Ferrara’s introduction, it’s a question of leading versus following.



Martin Hahn (Hogan & Hartson, LLC), counsel to Basic Food Flavors, Inc., presented "Lessons Learned from the HVP Recall."



Mike Natale (Bell Flavors & Fragrances).



John Hallagan (FEMA).



Douglas Rash (Treatt), Richard Pisano, Sr. (Citrus & Allied Essences) and Daemmon Reeve (Treatt).



Sue Adams, Tim Adams (FEMA), Catherine Kane-Martinelli (Symrise) and Lorna Hopkinson (IFF).



Suzanne Hughes and incoming FEMA president Ray Hughes (AM Todd), and outgoing FEMA president, Joanne Ferrara (ConAgra).



Jim Holden (PepsiCo), Staci Beuk and Lee Beuk (Bedoukian).



Kelly Poole (Roberts Group) and Colin Ringlieb (Pepsi).



Nancy Poulos (Kerry Ingredients & Flavours), Thomas Buco (Sensient) and Donald Wilkes (Blue Pacific Flavors & Fragrances).



Kevin Kenny (Decernis) and Paul Patel (Edlong).



A view of the beach party, which followed a day of committee meetings.



Joanne Ferrara (ConAgra) and Sean Taylor and Christie Gavin (both FEMA).



Karen Tonucci, Dave Tonucci (Givaudan), Cathy Cook, John Whalen (Blu Skye Group) and Mike Natale (Bell Flavors & Fragrances).



Craig Nielsen (Nielsen-Massey Vanillas), and Amie Byholt and Guy Gaffney (both Damman Vanilla).



"An Evening in Parrot Cove" reception and dinner.



Daemmon Reeve (Treatt) and Ted Weisz (Comax).



Rick Brownell (Virginia Dare) and Kip Gibson (IFF).



Honoree Bill Troy (Firmenich).



The FEMA board stands to honor Bill Troy (Firmenich).



John Hallagan (FEMA) and Joanne Ferrara (ConAgra) during the annual banquet and dance.



Speaker Charles Manley (FEMA) discussed changes in the flavor industry, including growing regulations and demands for healthier foods and beverages.



Colin Ringlieb (PepsiCo) and Janet Aho (Mane).



Tom Barry (Symrise) and Miriam Maxwell (Cargill).



Rick Brownell (Virginia Dare) and Krishna Bala (Firmenich).



David Tonucci (Givaudan) and Karen Tonucci.

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