

CASE STUDY



Founded in 1864 in Amsterdam by 22-year-old Gerard Adriaan Heineken, HEINEKEN has grown to become the #1 brewer in Europe and the #3 worldwide, operating more than 160 breweries in 70 countries. HEINEKEN has a well-balanced geographic footprint with leadership positions in both developed and developing markets. HEINEKEN's advanced program combines a diverse set of evaluation tools and analysis to drive results in their responsible procurement initiative.

Key Facts

- €19.25 billion in revenue
- 81,000 employees
- 82/100 DJSI - Top 3 Beverage sector Europe
- 70 Countries

EcoVadis stats snapshot

- >1000 suppliers assessed
- Ratings embedded in a 4-step procedure
- EcoVadis Gold rating, top 1%

Introduction: Brewing a Better World

With a brand portfolio counting over 250 between international premium, regional, local and specialty beers in 70 markets, HEINEKEN is the brewer with the largest international presence. They have developed a procurement function combining centralized group policies and procedures with local sourcing driven by operating companies, to deliver on the global demand in a responsible way. HEINEKEN's commitment to sustainability is part of the company's DNA. In 2010 they aggregated their numerous corporate and employee-driven CSR and environmental initiatives that had proliferated through the years into the "**Brewing a Better World**" initiative, to organize and demonstrate their commitment to having an impact on society *today*.

The program was built around 6 pillars: **Energy/CO2, Water, Sustainable Sourcing, Responsible Consumption, Community/Inclusive Growth** and **Health & Safety** (the latter two having been added in 2014).

For each pillar the program outlined a set of detailed targets (to be reached by 2015) and broader targets (by 2020). The definition of the goals was derived from meetings with stakeholders as well from global trend reports.

Sustainable sourcing: challenges and objectives

Not surprisingly for any beer connoisseur, agricultural raw materials such as barley and hops constitute the basis for HEINEKEN's business. **80-90% of raw materials are purchased by the global procurement team**, whose buyers bundle the demands of the 70 operating companies and distribute them amongst their global suppliers.

The world population is growing, and so is the demand for agricultural raw materials. Therefore ensuring an increased productivity in a sustainable way is the main driver behind HEINEKEN's sustainable sourcing program – but not the only one. As per Global Procurement Director David Spacey "*customers (particularly large ones) raise questions on HEINEKEN's*

supply chain CSR-related risks. It is key to avoid reputational damage by ensuring the right environmental, social and business values shared by HEINEKEN are adopted throughout its supply chain."

“As a global market leader, we use our influence to encourage suppliers to adhere to these guidelines and to request their suppliers to do the same, supporting us in making a positive contribution to society.”

www.sustainabilityreport.heineken.com

Goal setting

Through “Building a Better World”, HEINEKEN demonstrates best practices by outlining clear goals and expectations for sustainable sourcing:

By 2015:

- Sustainable sourcing of agricultural raw material as follows: 20% barley, 40% hops and 60% apples for cider
- Four-step Supplier Code Procedure operational within all Operating Companies
- 50% of agricultural raw materials used in Africa to be sourced within the continent

By 2020:

- Aim for at least 50% of our main agricultural raw materials from sustainable sources
- Ongoing compliance with the Supplier Code Procedures
- Deliver 60% of agricultural raw materials in Africa via local sourcing within the continent

Actions: a 4-layer process combining multiple measurements and actions

In order to achieve the 2020 goals mentioned above, HEINEKEN put in place a multi-layered process that combines multiple measurement techniques actions. With regards to sustainable sourcing, in 2010 HEINEKEN was the first brewer to join the SAI (Sustainable Agriculture Initiative), which aims at developing principles and practices for more sustainable agriculture. Further, dedicated programs with local procurement teams were implemented to reach the Local sourcing targets.

The second sustainable sourcing 2020 goal is ensuring the compliance of all suppliers to the **HEINEKEN Supplier Code**. Outlined in 2010, the code provides clear guidelines for how the supplier is expected to act in the areas of **integrity and business conduct**,

human rights, environment, as well as how it monitors and communicates progress within its own supply chain. The code lists out 12 commitments, which are based on relevant International Labour Organisation standards. All suppliers (of both product and non-product related products and services) are in the scope for the Supplier Code.

The signature of Supplier Code of Conduct is only the first step of a **4-step process** whose purpose is to screen and monitor the supply chain performance, highlight **high risk areas** in the supply chain and consequently **establish improvement plans in collaboration with the suppliers**.

Step 1: Supplier Code signature

Every new supplier is required to sign the supplier code.

Step 2: Supplier Risk Analysis

A risk analysis of the new supplier is performed using an internal **Supplier Risk Analysis (SRA)** tool, which looks at the industry sector, countries of sourcing and operations, and whether the supplier subcontracts any of their activities. The tool resulted from an initial EcoVadis Category & Country Risk Mapping analysis.

Step 3: EcoVadis sustainability assessment

High risk suppliers identified in step 2 are required to undergo an EcoVadis assessment.

EcoVadis, whose methodology is based upon internationally recognized CSR standards such as Global Compact, Global Reporting Initiative and ISO 26000, performs a document audit on the supplier's CSR policies and activities falling under 4 areas: **Environment, Social practices, Fair Business practices** and **Supply Chain**.



"We use the services of EcoVadis in order to help our suppliers develop and adhere to these standards, and to identify gaps in their performance that need to be addressed"

sustainabilityreport.heineken.com

The results of the analysis are available to both HEINEKEN and the supplier via EcoVadis' cloud-based platform in an easy-to-read scorecard, which contains quantitative information (rating on a 100-point scale in each of four themes and an industry benchmark tool) as well as qualitative details (in the form of strengths and improvement areas) of the supplier's CSR performance. In addition, via the EcoVadis collaborative Corrective Action Plan tool, Heineken requests all scored suppliers to undergo corrective actions.



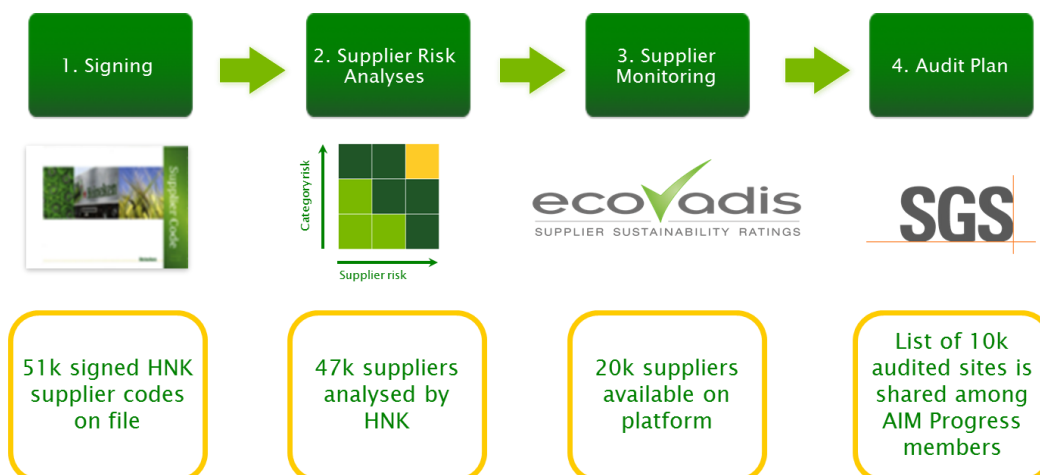
"In 2014, EcoVadis helped us to redefine how we view our suppliers. Challenging the 'high-risk' suppliers in our value chain on their sustainability management practices strengthens more than our Brewing a Better World strategy – it strengthens our business."

Gabi Giudici, Chief Financial Officer

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Step 4: 3rd party on-site audit

Suppliers receiving an EcoVadis rating below HEINEKEN's 'minimum threshold' are subject to a **3rd party site audit** using the SMETA standard protocol. Audited suppliers are also included in the commonly-shared database of AIM-Progress, a responsible sourcing initiative led by 40 consumer goods companies.



Results, lessons learned and best practices

The HEINEKEN 4-step process by the numbers

At the end of 2014, more than, **51,000** HEINEKEN suppliers have signed the code of conduct; **47,500** have been screened via the Supplier Risk Analysis tool and **1,500** have been identified as high-risk, and were thus required to undergo the EcoVadis CSR assessment. A key element in the success of this program has been to enable the local operating companies to take ownership of their program while also building in regular checkpoints to ensure accountability and progress.

Spacey points out that **"this 4-step process is rigorous and requires discipline throughout the organization. In 2014 176 suppliers were found to be non-compliant and unable to commit with the code of conduct, and saw their contract terminated"**. However, HEINEKEN does not disqualify suppliers whose initial assessment is poor. In HEINEKEN's words **"if cases of non-compliance are found we will discuss with our suppliers** how they will be corrected, within a given timeline. If there is no commitment or lack of corrective measures, HEINEKEN may cease to do business with that supplier and ultimately terminate the contract".



"HEINEKEN gave us the inspiration to bring our processes to the next step.

Our recommendation for fellow suppliers is to embrace this concept, get assessed and invest toward improving the weak points. We strongly recommend defining and following up key performance indicators and always consider them on each process for continuous improvement."

*Ozlem Karacaoglu, Key Accounts Manager at Metalfrío
(HEINEKEN supplier)*

Status of the targets

In regards to the sustainable sourcing targets outlined by "Brewing a Better World program", in 2014 15% barley, 62% hops and 28% apples for cider were sourced sustainably. The 4-step Procedure is operational in 25 Operating Companies and expected to be rolled-out for all remaining Operating Companies by 2015.

Lessons learned

Such a wide and ambitious program presents its challenges, both internally and externally. Buyers have been demanded to add a new dimension – sustainability – in their purchasing decisions, along with price and quantities. On the supplier side, whilst companies in developed markets do not represent a challenge because of elevated CSR standards, more remote local suppliers, especially in emerging markets, require **more education** on sustainability topics.

After 5 years it is clear that **the program is paying off**: it is driving sustainability throughout a global supply chain. Internally, it has given HEINEKEN procurement organization a new credibility and a high, strategic profile.

Today CPO David Spacey sees no other direction than the one outlined in 2010. The next milestone is reaching the 2020 goals, with all the efforts going to 3 programs: sustainable sourcing worldwide, adherence to the supplier code of conduct as well as dedicated local sourcing programs in Africa.

CASE STUDY



Sources:

Heineken-Brewing a Better World (Harvard Business Review case study) <https://hbr.org/product/HEINEKEN-Brewing-a-Better/an/715022-PDF-ENG>

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<http://www.theheinekencompany.com/sustainability/sustainability-performance-highlights-2014>

<http://www.sustainabilityreport.heineken.com/Sourcing-sustainably/Case-studies/How-HEINEKEN-and-EcoVadis-help-suppliers-become-more-sustainable/index.htm>

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Request a free consultation on your sustainable
procurement program

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About EcoVadis

www.ecovadis.com

EcoVadis operates the 1st collaborative platform allowing companies to assess the environmental, social and ethical performance of their suppliers on a global basis. Combining technology and CSR expertise, EcoVadis helps businesses reduce risk and drive performance and innovation in their supply chains.

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