

r&c worlds *Express*

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Highlights:

- A surge in food safety failures has spiked consumer concerns and prompted increasing regulation worldwide. The US Food Safety Modernization Act, which will begin to impact companies this year, gives the FDA new enforcement authority that will affect companies worldwide. Under the Act importers will be responsible for ensuring foreign suppliers meet the new regulations.
- Although legislation only sets minimum standards, customers expect their food to be safe and high quality – an expectation that is likely to rise as knowledge and awareness of food trust issues grows.
- Food product companies will want to aim for an approach that meets a higher bar and is based on the trust they want their brands to deliver – differentiating their products in the minds of the customer.
- Leading companies adopt an approach that includes stringent analysis of not only supply constraints and risks but also areas where food trust issues could arise, creating greater integrity, quality, traceability and transparency throughout the supply chain – giving customers the greatest confidence in their food.

Food trust: From compliance to competitive advantage

The global food industry has never faced more challenges. Basic fundamentals of trade and food supply are being tested, as globalisation and increasingly complex supply chains create food trust risks on an industrial scale. And it's not just small or unsophisticated businesses that are feeling vulnerable to threats in the food value chain. A brief glimpse at recent headlines shows a consistent picture of increasing risk affecting even the most reputable companies.

The recent 'nuts-for-spices' scandal, for example, in which peanut and almond shells were allegedly substituted for cumin seeds, has seen dozens of food products pulled from supermarket shelves across the US and Europe. Frozen berry products have been recalled in Australia due to hepatitis A contamination fears. And 'eco-terrorists' have blackmailed New Zealand and its dairy industry with a threat to poison infant and other milk formula. Meanwhile, the problem of horsemeat being passed off as beef mince continues to afflict the food industry.

With the World Health Organisation estimating that food and waterborne diseases kill 2.2 million people annually, and three-quarters of food companies reporting at least one disruptive event each year,¹ it's clear why governments around the world are increasing their focus on food-related regulation.

As food safety failures cause governments to grow their regulatory efforts, those efforts are often supplemented with increased oversight and sanctions, fines and penalties. Unsurprisingly, such regulation is causing concern. PwC's 18th Annual Global CEO Survey showed that 78% of CEOs are most worried about its disruptive impacts and threat to business prospects.

¹ Business Continuity Institute (BCI), *Supply Chain Resilience Survey*, 2013.

Going beyond regulation

Food companies, while grappling with a wide range of other demands, have recognized the need for greater transparency across their supply chains to meet these enhanced regulatory standards and give customers confidence in their products. However, complying with regulatory change is just the beginning: Winning customers' trust requires more. Legislation only sets minimum standards, yet customers expect the food they purchase to be safe and high quality – an expectation that is likely to rise as consumer knowledge and awareness of food trust issues increases.

Our experience shows that many retail and consumer goods companies could be doing more to anticipate regulation and get ahead of it. Anticipatory actions go a long way towards protecting reputations and maintaining customer trust.

While food companies take food safety, security, quality and recall management very seriously, the nature of today's supply chains demands a more strategic approach across the value chain. A strategic approach – what PwC calls food trust - will deliver on the brand promise, protect reputation, improve efficiency, reduce costs, limit disruptions and enable a more effective response to crises.

The current regulatory change is an opportunity to reassess and strengthen food safety and supply chain resilience. In the end, this delivers on the promise to customers to sell safe food they can trust.

The biggest food safety reform in 70 years

The most significant reform affecting the global food industry in decades is the US Food Safety Modernization Act 2011 (FSMA), due to begin impacting food companies this year. Two significant trends have contributed to making supply chains more vulnerable to outbreaks in the US and other developed economies: the centralisation of food production and the distribution and rapid growth of imports from countries where safety standards or enforcement is weaker. This is what the FSMA is intended to tackle.

The new law gives the US Food and Drug Administration (FDA) a wide range of enhanced enforcement powers, such as the right to recall contaminated foods and hold accountable everyone at each step of the supply chain. The new law changes the food safety regime by shifting the regulatory focus from response to prevention, and companies must now take additional preventive steps.

A very significant piece of the legislation is aimed at companies exporting to the US, as it gives the FDA authority to ensure goods imported into the country meet the same standards of compliance as food produced there. This means if a product doesn't meet US regulatory standards it could be stopped at the border. With the FDA estimating that around 15% of all food in the US is imported – including 60% of fresh fruit and vegetables – there are far-reaching consequences. The FSMA will have a trickle-down effect that lifts standards throughout supply chains across the world.

Companies, whether based in the US or elsewhere, need to be conversant with the requirements of these regulations if they supply any food products that are imported to the US. US companies will be seeking to gain more visibility over their supply chains to aid their compliance efforts and reassure customers.

Best practices for greater food trust

In our experience, leading companies adopt the following approaches to improve food safety trust and protect their brands.

Instilling a positive culture of safety and quality from the farm to the shop floor. Leading organizations are adopting innovative practices that extend to staff awareness and training across the supply chain. In addition, they are analyzing leading indicators to identify and manage potential risks, which may extend to customer complaints, media reports and customer trends.

Starting at the top to ensure a risk-resilient business culture and best practice behaviors. Business leaders must be fully engaged with food trust issues. Participation in industry bodies and thought leadership is essential to developing a culture that is relevant and responsive to current and emerging issues.

Regularly reviewing supply chain risks and benchmarking against best practice. Companies that have complete oversight over all stages of the supply chain, as well as risk management procedures tailored for multiple geographies, have a compelling competitive advantage. Proactive behaviour in supplier risk management leads to fewer compliance costs, fewer product

recalls and improved consumer confidence.

Adopting a risk-focused approach. Best-in-class companies ensure their resources are focused on fighting their biggest threats by adopting a stringent analysis of not only their supply constraints and risks but also areas where food trust issues could arise.

Investing in technology-enabled solutions. Scientific advances are creating a greater understanding of food health and safety and early detection of hazards, while technological breakthroughs are helping to improve standards, manage risk and provide more information about food products. Best-in-class companies are investing in new technologies, as well as challenging existing frameworks with a view to enhancing food trust outcomes.

Approaching crisis management in a transparent way. Companies with trusted brands tend to approach crises in a swift and transparent way in order to protect those brands. These companies actively engage in scenario analysis, planning and rehearsal and have robust product recall and crisis management procedures.

Fully integrating food supply chains within organisations. By having more control over their supply chains organisations are able to improve safety, traceability and have greater oversight over the security of supply. Less reliant on the practices of suppliers, organisations can manage risks in a more structured way.

Managing transactional risk. Operational and food trust due diligence is becoming a fundamental aspect of managing transactional risk. This extends to the systems and

processes at production sites, as well as to culture, governance, supplier risk and ancillary support infrastructure.

Where to start today

Food companies that aspire to be market leaders can start by reviewing their food safety plans, training programs and supply chains. External assessments can help. At a minimum, companies must ensure they are compliant with regulatory change – but we urge you to go further to win your customers’ trust. Here’s where to start:

- Become FSMA-ready by assessing and enhancing existing processes to comply with new regulatory requirements

- View processes through the lens of recall capabilities (for example, does management know first steps in the event of a recall?)
- Implement a risk-based, preventive lens to your food safety strategy, with a focus on quality management, product integrity, food defense and traceability
- As a US importer, make sure you are in a position to be able to prove compliance to the FDA.

How is the FSMA shaking up the global food industry?

The new law mandates increased FDA enforcement, bringing enhanced risk and new compliance requirements across supply chains. Here are the key provisions of the FSMA and the impacts for retail and consumer goods companies.



Import oversight

Importers will be responsible for ensuring foreign suppliers have adequate preventive controls in place to meet regulations. This includes gathering evidence of preventive controls, assessing areas such as food safety culture and execution, recordkeeping, response tools and conducting facility risk assessments.



Product recalls

Recall notices could increase now, as the FDA has authority to recall contaminated food products. Food companies must consider how they can increase the rigor of compliance processes to make a recall less likely. Equally important is ensuring an effective response to avoid sanctions and limit reputational damage in the event that a recall is required.



Food defense

Food companies must identify vulnerabilities in food operations and develop mitigation strategies. The threat of fraud is a growing problem as supply chains get more complex, resources grow scarcer and the cost of food increases. All this provides more opportunity and potential reward for food adulterers.



Inspections

We can expect the FDA to increase its inspections of food facilities to ensure retail and consumer goods companies are complying with its enhanced food safety regime. Food companies must reassess food safety culture from the top down to ensure strict compliance, as well as revisit and improve food safety plans regularly.



Whistle-blower protection

US employees now have legal protection if they sound the alarm on a food safety breach. Food companies will want to assess their procedures for preparing, responding to and protecting whistle blowers.



Traceability

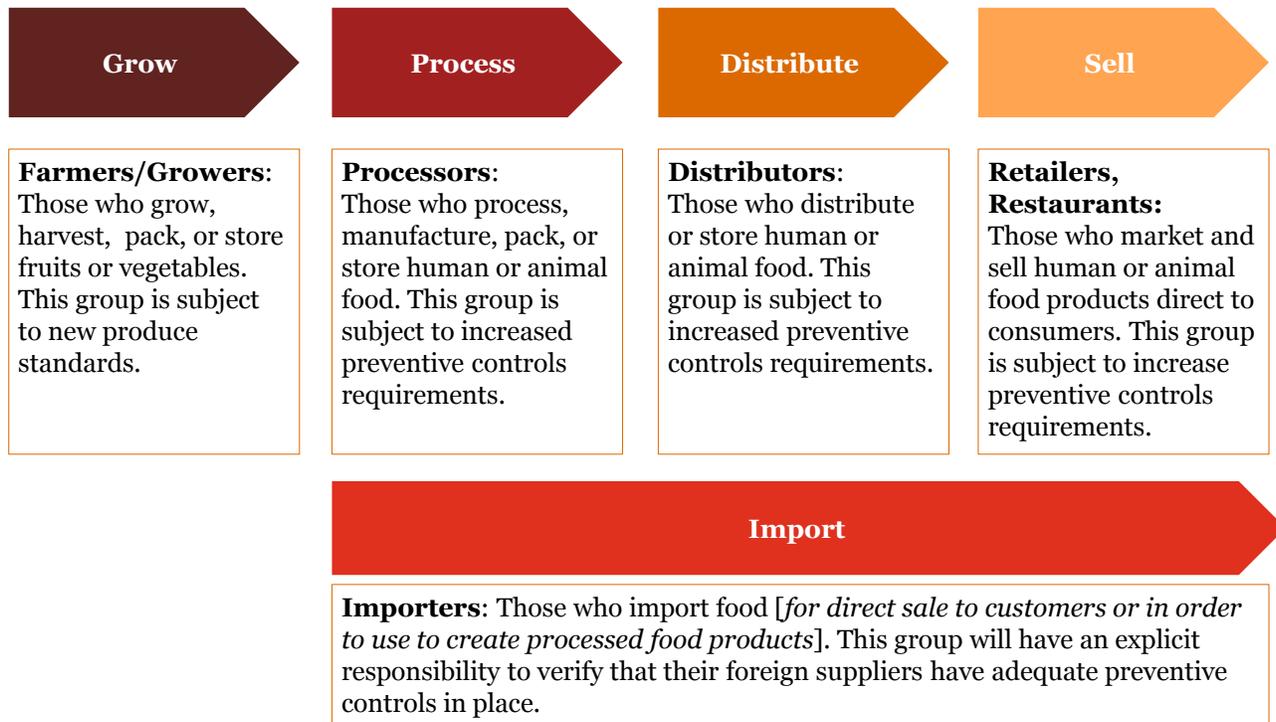
Food companies will be responsible for ensuring ‘farm-to-table’ traceability of their food supply chain. This means reassessing and enhancing tracking, tracing and recordkeeping processes and identifying at-risk areas.



Qualifications, training and education

Employees are the first line of defense, so investing in training on food safety issues will improve your standards and culture, minimising risks and saving money.

Companies across the food supply chain are impacted by the FSMA



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