Integrating sustainability into business practices: a case study approach

Blackmores

Facts and figures

<table>
<thead>
<tr>
<th>Type of organisation</th>
<th>Publicly listed company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Health care equipment &amp; services</td>
</tr>
<tr>
<td>Total revenue (2010)</td>
<td>A$217.1 million</td>
</tr>
<tr>
<td>Head office</td>
<td>Sydney</td>
</tr>
<tr>
<td>Operations</td>
<td>Australia, New Zealand, ASEAN countries</td>
</tr>
<tr>
<td>Employees</td>
<td>450</td>
</tr>
<tr>
<td>No. of products</td>
<td>550</td>
</tr>
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Blackmores is market leader in the Vitamin Herbal and Mineral Supplement (VHMS) market in Australia, with strong market positions in New Zealand, Thailand and Malaysia, and a growing presence in other ASEAN countries.

Blackmores has been an industry leader in Australia for over 70 years, since its founder Maurice Blackmore developed a whole system of healthcare products based on naturopathic principles. He was a pioneer of natural health, preventative medicine, the environment and recycling as far back as the 1930s. The core values and philosophies established at the outset are still alive around natural health care, quality products and a commitment to sustainability.

These values come to life when interviewing Marcus Blackmore, the current Chairman and son of the founder, who is passionate about doing the right thing for Blackmores’ people, customers and the public in general. He is clear that all organisations, including Blackmores, have a responsibility to the next generation to leave a better planet. He is even sensitive to this case study because he believes there is still much more Blackmores can do to further improve its sustainable business practices – they are still on their sustainability journey. He also realises that sustainability is core to the ongoing development of the Blackmores brand and reputation in Australia and overseas.

As an example of Blackmores candour and to show they are still on the journey, Blackmores is still in the process of auditing its supply chain (of more than 350 ingredients) to determine their GM (genetically modified) status. Blackmores will continue to work with contract manufacturers and ingredient suppliers (see Strategic Sourcing below) to assess the sources, production techniques, sustainability and continuity of supplies until such time that it can be proven that all ingredients are non GM or GM-free. Blackmores’ core
values, although deep seated in history, were most recently reviewed three years ago from the bottom up when staff were asked what was important in working at Blackmores. The results were codified into Blackmores' core PIRLS values:

- Passion for Natural Health
- Integrity
- Respect
- Leadership
- Social Responsibility.

These values run through all activities undertaken by Blackmores.

**Governance and strategy**

In 2005, Marcus Blackmore (then Chairman and CEO) and the Board made a decision to vacate their two properties and develop a single new environmentally advanced facility. The decision was made for a number of reasons (see Property below) but significantly to prepare Blackmores for future growth. He also determined that a new CEO should be found to lead the organization into this next growth phase. This would also mean that Blackmores is in compliance with the ASX Corporate Governance Principles. Blackmores undertook extensive due diligence to find a CEO who could drive the required commercial growth without losing the people focus and caring culture and values of the organization.

The new CEO came on board in 2008, around the same time as significant changes were made to the executive team and the company moved into the newly completed Warriewood campus. In early 2009, the new leadership team worked with the Board to develop the future growth strategy. Once completed it was important to ensure that all managers and staff understood it, and understood their role in delivery. At the leadership level, strategic sustainability objectives were built into executive annual plans (shared operational responsibility), linked to performance pay, so that the required actions are implemented and cascaded into managers and staff plans.

For staff, a simple one page Vision statement outlining the key planks of the strategy, together with the expected outcomes, was prepared; in addition a very simple ‘Journey’ diagram (Figure 1) was developed. The executive team then undertook a road-show to all locations to explain the strategy, vision and journey to all employees. These roadshows were critical to gain acceptance of the strategy, answer any staff questions and demonstrate the importance of every employee in its implementation.

**Awards**

Blackmores has won many awards, including:

- 2008 Pharmaceutical Packaging Action Award, Packaging Magazine Evolution Awards
- Ethical Investor’s Small Company of the Year
- 2009 Australian Institute of Architects Sustainable Architecture Award
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- Pittwater Sustainability in Business Award
- for a Medium/Large Business
- 2010 Reader’s Digest Most Trusted Vitamin and Supplement Brand (Australia and Thailand)
In the past, Blackmores established a ‘green team’ to support staff in implementing Blackmores’ green initiatives. This team disbanded when all staff moved to one building; however, the executive leadership is considering re-forming a similar team to drive implementation of the broader sustainable business strategy.

Success of the new growth strategy can be measured in many ways, but Blackmores achieved a 46% total shareholder return in the year ending June 2010, with employee engagement remaining at over 80% (one of the strongest in Australia). Also, earlier in 2010 Bell Potter Securities Limited included Blackmores in its ‘Exceptional Eight’ companies for organic growth. Blackmores total return over the last 10 years (to March 2010) has been 566.2%.

Leadership and employee engagement

Blackmores works on a number of collaborative projects with research and other institutions in the development of natural health products, including Southern Cross University, the Heart Research Institute and the Macular Degeneration Foundation (MDF). In the case of the MDF, Blackmores was approached to develop a natural health product based on the findings of a recent trial that could potentially help prevent macular degeneration. Blackmores developed the eye care health product, but its registration approval does not allow it to claim a cure to a serious disease (like blindness through macular degeneration), however Blackmores donates 5% of revenue from this product to support MDF in its work in raising awareness of eye health and macular degeneration eye testing and prevention.

Blackmores believes there is a place for natural health solutions and supplements in the overall Australian (and international) health system. The escalating cost of healthcare is untenable, and actions must be taken soon to introduce more preventative health activities around nutrition, exercise and the use of natural health supplements.

Consumers are already starting to understand the value of natural health solutions as part of their overall wellbeing regime, as can be seen in Blackmores recent growth (especially in Asia where traditional alternative medicine is well known and understood). In addition, GPs are starting to learn more about natural health products and to offer them as potential remedies. However, there is not a level playing field for the prescription of natural health solutions, as they tend to be more expensive than pharmaceutical medications as they are not subsidized and are subject to GST.

Blackmores, as leaders in this sector, is promoting the importance of natural health products with Government. For example, Blackmores is planning to sponsor a function at Parliament House in February 2011 to promote the importance of complementary medicines in the health system. There are great stories to tell like the MDF one above, as well as the folic acid supplement story. Natural medicines tend to be much cheaper to produce than pharmaceutical medicines, and the use of the vitamin folic acid has saved the Government significant funds in life long support of babies born with neural tube defects.

Blackmores’ total commitment to its people

Marcus Blackmore believes that if you look after your people, then everything else will take care of itself. The decision to move to a single campus was largely driven by the desire to have the workforce from the two Sydney sites under one roof, and provide much better working conditions. The site was selected after a survey was undertaken to find out where all the staff lived. The epicentre for over 70% of the workforce was Dee Why, and so that is why Blackmores looked for land on the Northern Beaches.

Blackmores also signalled the move some 3 years before it happened, by selling the old buildings. Those few staff who did not want to move to Warriewood had ample time to find alternate employment nearer home. No staff member left at the time of the move.

The design and fit-out of the building was leading edge in 2005/6 when plans began, and one of the main objectives was to provide staff with a healthy work environment (with fresh air, good light, a fitness centre,
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In addition bike racks, showers and other amenities were included to assist those who wanted to cycle or walk to work.

With business growth in Asia, the Executive were keen to ensure that the Asian executives and staff felt part of the Blackmores family. The ‘One Blackmores’ framework was established to ensure everyone was included. Monthly staff B-News meetings are held at Warriewood to discuss progress against the Vision and to recognize achievements. Overseas and interstate staff dial in via video-conference.

In addition Asian executives fly into Sydney to join executive team meetings face to face to ensure relationships are built and to foster the ‘One Blackmores’ philosophy. Another example of ‘One Blackmores’ occurred when a new production line in NZ had quality issues. Marcus Blackmore asked one of the experienced production staff members in Sydney to fly business class ‘(if it’s good enough for managers, it’s good enough for staff)’ to spend a week assisting the NZ team resolve their quality issues. This was successful from a quality as well as a teaming, staff recognition and ‘One Blackmores’ perspective. Blackmores also believes strongly in recognition, not just for financial performance but also for achievements in living the PIRLS values. Nominations come from staff on a bi-annual basis, and the PIRLS awards (mainly financial) are given in front of the whole workforce. There is also a CEO’s award.

Finally, Blackmores is very proud of their culture and values and when recruiting they are careful to not only employ people who have the skills to perform the specific role, but also passionately believe in the value of natural health solutions and Blackmores’ other PIRLS values.

Making investments now for long-term sustainability

From a commercial perspective, the new 5 star premises were required for growth and productivity improvements. These have already been delivered as Blackmores achieved 26% productivity gains in 2009/10 arising from volume growth, cost reduction and improved logistics and efficiency. In addition, the new facility was earnings accretive after only 18 months (budget 3 years) as increased earnings more than covered additional depreciation and interest arising from the cost of the new premises.

From the sustainability perspective, there have been teething difficulties in maximizing the built-in sustainability features at Warriewood. Blackmores is working through each feature to ensure that when it comes on line, it can be controlled internally and the sustainable business benefits realised. The tri-generation plant is in operation and provides most of the energy, heating and cooling needs. The grey water treatment facility to treat the harvested rain water for use throughout the building will be operational in January 2011, allowing Blackmores to be over 70% water self-sufficient. The black water treatment process (to harvest sewerage water for irrigation and toilets) will be developed in 2011.

In addition, at this stage it is hard to evaluate whether the social benefits have been realized, although KPIs like reduced sickness days due to the healthier environment are starting to be captured. There was an additional cost in building a 5 star designed facility, but Blackmores believes it will be more than justified in the longer term sustainable value of the facility. Blackmores has also purchased an adjacent site to allow for further expansion - a long term sustainability-driven investment.

Resources and alliances

Blackmores uses contract manufacturers in Australia and New Zealand to produce their natural health products, with bottling, packaging and distribution occurring at Warriewood. The contract manufacturers have traditionally sourced the raw ingredients and manufactured to Blackmores specifications.

Blackmores has established a number of policies to guide the research and development of new natural health solutions including policies for:

- Ingredients (outlining what can and cannot be used i.e. bovine cartilage can be used for chondroitin, but shark-fin cannot)

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Animal testing – guidance and controls in place over animal testing
Use of animal ingredients – guidance and controls in place over limited use of animal ingredients
Use of GM materials
Packaging – guidance for compliance with the Packaging Covenant
Environmental considerations – guidance for procurement.

However, Blackmores has not until recently had line-of-sight back to the ethical practices of the ingredient suppliers. This is now changing as customers are more and more focused on the quality, origins and procurement history of the products they are buying (i.e. fair trade, organic, non GM, fair labour practices etc.).

Blackmores has established a Strategic Sourcing group charged with getting a better understanding of the current ingredient sources and their working practices, with a view to increasing the level of audits. This group will also identify alternate sources to ensure security of supply. Overall Blackmores realises that they must build relationships closer to the source of their ingredients to be able to meet customer, and potentially regulatory, demands for efficacy and comprehensive product labeling.

Accounting and integrated reporting

The Blackmores' Annual Report 2010 is a form of ‘integrated report’ in that it includes a good overview of Blackmores’ performance financially, environmentally and socially against its key strategic planks. Throughout the report there are also a number of interesting performance statistics as well as qualitative stories; however, there are no targets to assess performance against.

Development of the Report by the Corporate Communications Manager was undertaken several years ago, and the format has remained reasonably consistent, with minor enhancements for new areas of focus and successes. The information is taken from quarterly reports, awards documentation and Board reports. For certain statistics, logs are maintained by staff (i.e. new product releases) or through technology (i.e. calls to the advisory lines).

The report for 2011 will be further enhanced to report back on performance against the strategic commitments and outcomes (or themes) detailed in Blackmores Vision statement. However, the communications team is keen to maintain the ‘grass-roots’ sentiment of reporting on what matters to Blackmores, what they are proud of achieving, and the areas they are still working on.

Blackmores is currently considering whether to continue to centralize their sustainability effort in a single management position, or more likely embed responsibility for sustainable business practices into the roles of senior executives i.e. responsibility for the Australian Packaging Covenant sits with the Director, Products, Development and Innovation, building energy and GHG sit with the Operations Director, and ethical procurement sits with the Strategic Sourcing Director.

Once a decision has been made, the strategic commitments and outcomes in the Vision will be included in the key responsibilities and KPIs of the relevant executives and their teams. At this point, further decisions will be made about whether to adopt a more formal sustainability reporting template (like GRI G3) or continue to build on the current template.

Finance’s role has been to support the other executives in implementing commercial sustainability strategies. For example, the Board and executive made the decision to build a tri-gen plant primarily to reduce Blackmores’ GHG outputs and improve the environmental rating of the new building; Finance’s role was to negotiate an effective deal structure with the energy company, maximise available grants etc.
GHG data collection and reporting were undertaken in Finance, but this is now automated for Warriewood and managed by Operations. Other data used in the annual report (and Board papers) are captured by the responsible department.

Once the outcomes included in the Vision statement are embedded in executive plans and KPIs, Finance is expecting to have a greater role in tracking and reporting performance internally.

In addition, the CFO is considering how to best leverage the current risk management system to manage, monitor and report on environmental and social strategic risks and opportunities.

Blackmores performance in effectively managing its Vision and sustainability commitments is critical to continually enhancing one of its key resources - its trusted brand and reputation.

### Lessons learned

#### Governance and strategy for sustainability

- Define what the business stands for, and embed sustainable business thinking into everyday activities and decision-making
- Establish policies for sustainable business practices, and communicate them across the organisation.
- Ensure there is clear distinction between innovation that will expand the market and that which will differentiate the organisation within the current market
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#### Leadership & employee engagement

- Make organisational values, including sustainability, part of recruitment policy
- As a leader, engage in public advocacy to drive change and promote research and sustainable development in the best interest of the nation as well as the sector
- Ensure communication of the organisation’s vision, values, strategy, objectives and outcomes is consistent and regular across the whole ‘one-organisation’
- Focus on treating people well, celebrate people doing the right thing
- Focus on building life-long customer loyalty and trust through delivering relevant, quality solutions at a fair price and through doing the right thing
- During periods of significant change, ensure that all stakeholders understand the implications and what is expected of them; also ensure that the strengths of the fundamental ‘grass-roots’ culture are not lost in the change
- Establish cross-functional teams to assist in implementing and continually improving sustainable
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- Build sustainability objectives into executive annual goals and plans, linked to performance.
- Consider the environmental, social and ethical, as well as financial, implications of each proposed transaction.

Resources & alliances

- Ensure the source, production methods and supplier of ingredients and equipment is known – it can impact brand and product value.
- Consider collaborating and seeking open-source solutions for innovation that will expand the market.

- Accounting and integrated reporting
  - Consider reviewing the various reporting frameworks, and sector supplements, and adapt one to best suit reporting on the organisation’s own strategy and vision.
  - Consider linking management and reporting of sustainability to risk management systems and processes.
  - Ensure Finance is involved in developing the strategy and vision, and especially in the identification of measurable outcomes and achievable sustainability targets.
  - Ensure that the organisation has strong IP and knowledge management systems, processes and controls for own-use innovation.
  - Ensure capital expenditure and investment policies and business cases include a requirement to formally assess the environmental, social and ethical, as well as financial, implications of each proposed transaction.
  - Set a baseline (target) for known sustainability KPIs (i.e. GHG, energy and water use), prioritise and address known strategic gaps and issues, and work with Finance to develop a scorecard for ongoing performance management.