A4S CFO LEADERSHIP NETWORK

SCENARIO ANALYSIS

Practical example: Nestlé

THE PRINCE OF WALES'S CHARITABLE FUND

Nestlé

WHAT

Nestlé takes the threat of climate change seriously. Solving it requires all of us to act with great urgency, and we have the size, scale and reach to make a real difference. In 2019, we announced our ambition to achieve net zero greenhouse gas emissions by 2050 in line with the UN Business Ambition for 1.5°C pledge. Given that nearly two-thirds of our emissions come from agriculture, we are working closely with farmers, suppliers and communities where we operate to source our ingredients in a way that generates positive environmental and social impacts.

Our reporting on sustainability activities is guided by the principles of transparency and good corporate governance. In 2018, Nestlé adopted the TCFD recommendations and began implementation in 2019.

For a number of years, we have been working to assess the impact of climate change on our business. In 2019, our scenario analysis focused on three of our key commodities: coffee, wheat and dairy. We published the first results in our Annual Review 2019 as part of our TCFD disclosures. Since then, we have continued to refine and expand our scenario analysis, using the results to engage proactively with stakeholders.

WHY

Scenario analysis does not predict the future, but it allows us to better understand the impact of climate change and how it could affect our company.

Climate change presents unprecedented challenges in terms of complexity and scale. Creating projections of various aspects, from the exact physical impacts over time, to the strategies that societies will adopt to transition, can be difficult. Warming trends are expected to significantly diverge around the middle of this century, so we know we must prepare and adapt for a warmer world.

With this level of complexity, scenario modelling offers the chance to have strategic conversations about the future. Instead of diving straight into action we can consider where the world might move to, and what the plausible outcomes and impacts might be. It helps us to consider the transition to the new economic model, whether orderly or disorderly, as well as how the market, our competitors and our consumers may react.

HOW

We started by building an internal cross-functional team with broad skills, experience and perspectives to tackle this issue. Buy-in at senior level was crucial to get the executive support and resources we needed.

We also sought out specific expertise on climate change and scenario modelling that we did not have in-house. In 2019, we collaborated with the University of Lancaster's Pentland Centre for Sustainability in Business, who helped us define our climate scenarios: 'business-as-usual' (4–5°C warming) and 'Paris Agreement' (warming below 2°C). With their advice, we chose appropriate time horizons and framed the key assumptions – for example, that the physical effects of climate change in both scenarios would be similar until around the middle of the century.

QUALITATIVE AND QUANTITATIVE SCENARIO ANALYSIS

The first phase of our scenario analysis was entirely qualitative. We built our narratives, and started having valuable, in-depth discussions focusing on our most important commodities. We learned a lot in that first year, including that climate change does not mean temperatures rise everywhere at the same rate. Regional changes in temperature and precipitation will mean some regions will receive more rainfall, while others will be exposed to more frequent droughts. For wheat and dairy there is a potential increase in the volatility of regional sourcing due to greater local climate variability but overall we foresee limited impact on global macro yields. Physical risks have a higher probability to impact an origin-sourced commodity, such as coffee, with higher temperatures and water shortages potentially compromising quality and reducing availability. These insights were included as part of our climate disclosure in our 2019 Annual Report.

At the end of 2019, we decided it was the right time to move to a quantitative approach. The assessment was led by our Head of Group Risk, managing a team representing various businesses and functions. We partnered with the University of Cambridge's Centre for Risk Studies to define the methodology and build a climate modelling tool. We considered various climate scenarios, covering a broad spectrum of outcomes, to help provide insight into some of the risks and opportunities that may arise. The modelling simulations evaluated the potential directional financial impacts on Nestlé for both transition and physical risks. We integrated our analysis and the related insights into our overarching climate change strategy to help strengthen our resilience, mitigation and adaptation responses. The in-depth information we generated led to our first full TCFD Report in 2020.

Moving forward, we will continue to refine our identification, assessment and management of climate risks and opportunities using scenario analysis to improve robustness and comparability. Managing climate risk is an important topic for many investors, and our TCFD-aligned reporting supports transparent, open communication with all of our stakeholders. We try to lead by example, demonstrating our tangible actions to convince others to act and striving to ensure that our initiatives promote a just transition toward a regenerative food system for all.

TOP TIPS

IT'S A STEEP LEARNING CURVE

For the more technical aspects of scenario analysis, particularly climate scenario modelling, external specialists can help to get your project off the ground and to develop the skills to continue in-house.

KEEP THE SCOPE MANAGEABLE

In large organizations, it is important to keep the project to a manageable level. If necessary, aim to answer specific questions or limit your analysis to key business areas – as we did by choosing three important commodities to focus on.

USE THE TCFD FRAMEWORK

The TCFD recommendations have been hugely helpful. They break down a complex topic into manageable chunks and provide a map for disclosing useful information to stakeholders.

GET IN TOUCH OR FIND OUT MORE

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