

# CHARTING THE ISSUES PROCUREMENT PRACTICES

## OUR VISION: A RESILIENT SUPPLY CHAIN

*Delivery of great products to our customers requires a steady influx of high-quality coffee beans and other materials from our suppliers. That's why we're working to better collaborate with all of our business partners on issues that impact the supply chain – such as the continuity of coffee supply, environmental and social issues occurring on farms and in manufacturing, and optimizing resource and waste management. Through this process, we aim to fortify relationships with our suppliers and challenge them to improve their environmental and social practices as we continue to improve ours. By working together, we believe we can build greater resiliency across our entire supply chain.*

We believe that the quality, safety, and traceability of the ingredients and components that our partners supply are a key part of our sustainability model. Within the Farmer Brothers SEED framework, we set our responsible sourcing goals using social, environmental, and economic pillars. Through SEED, we seek to create a sustainable business that can nurture communities, strengthen our supply chain, create long-term viability, and help manage business risk. With a cross-functional team to oversee our supplier portfolio and procurement practices — including members of our Green Coffee, Procurement, Quality Assurance, Risk Management, and Sustainability departments — we take a purposeful approach to responsible sourcing. Among other things, we address critical issues in our supply chain with a portfolio of certifications and verifications, including direct trade, direct trade verified sustainable, and other credible certification standards.

### WHY IS SUSTAINABLE SOURCING IMPORTANT TO US?

Farmer Brothers' success as a company hinges on the availability of our raw materials. Without stable supplies of coffee, spices, teas, and other commodities, the future of Farmer Brothers would be in jeopardy. However, our long-term supply is threatened by many influences, including climate change, crop diseases and farming practices, as well as social issues that directly affect our farmers' lives, including food security, household resilience, gender issues, and low income. By reaching out to our suppliers, better understanding their challenges, and finding ways to help, we are making an effort to take our future into our own hands.

### WHAT OUR FRIENDS SAY ABOUT IT

*"Food security is the 'canary in the mine shaft.' Where this is a problem, there will be all kinds of other issues, or a high potential for them to exist. For instance, hunger and malnutrition lead to lower levels of productivity, which has a direct economic cost. You can increase wages several-fold and sometimes not have much effect on food security."*

Daniele Giovanucci, *President, COSA*

*"When farms are not meeting costs of production, voluntary sustainability practices can be difficult to implement."*

Shauna Alexander Mohr, *Sustainability Manager for the Americas, Volcafé*

*"The role of women in agriculture production systems is critical. Women perform ~80% of all farm activities, but own only 15–20% of farms."*

Ric Rhinehart, *Executive Director, Specialty Coffee Association of America*

*"Several years ago, we experienced a spike in coffee prices due to a long period of low farmer income. The farmers' inability to successfully manage their farms eventually led to diminishing supply and a rapid increase in prices. This was a clear lesson about the importance of considering the sustainability of the farmer's business."*

Kelly Ludwig, *Sustainability, McDonald's*

### HOW WE MEASURE IT

In today's world of global food sourcing, every element of the food-supply chain requires visibility. It's not enough to look at just our own activities; we need to look up and downstream in the chain to identify and minimize risks. Our customers are demanding a clearer picture of the supply chain for their food, and food safety regulations such as the Food Safety Modernization Act (FSMA) have made this a regulatory imperative.

To align our suppliers with our expectations and requirements, we are adopting a three-phased approach to supplier qualification to support our sourcing initiatives.

1. Raise awareness to our expectations and requirements by publishing, promoting, and incorporating them into our Farmer Brothers supplier agreements.
2. Assess suppliers' risk internally based upon Quality, Food Safety, & Sustainability Survey information.
3. Conduct on-site audits of all higher-risk suppliers as identified by the Quality, Food Safety, & Sustainability Survey.

To execute this process, we plan to use an online platform to gather information regarding key performance indicators (KPI) to monitor and evaluate suppliers and index them against each other. At a minimum, we expect our suppliers to demonstrate that they provide safe products of consistent quality that meet or exceed our customers' expectations. They must demonstrate their commitment to human rights in their supply chains and the United Nations Global Compact through public disclosure. Additionally, suppliers are expected to self-report on food management programs and performance criteria in order to:

- Prove that they meet the food safety and security needs expected by the public, regulatory agencies, and our customers.
- Outline their formula for determining value of human, natural, and financial capital.

Direct trade verified sustainable (DTVS) is a growing percentage of our coffee portfolio. Within the direct trade buying philosophy, the coffee is expected to be traceable from the producer to the consumer. To evaluate whether coffee is DTVS, we follow an outcome-based evaluation framework. The outcome of this evaluation weighs on where we invest our resources within our supply chain and has led to an increased level of transparency for us. Because we source from the programs where we invest, we expect

full accountability from our partners and our consumers expect it from us. We follow a process that includes the following steps:

1. Conduct a baseline assessment using indicators developed by the Committee on Sustainability Assessment (COSA) to survey 100% of our participating producers. The assessment is administered by field staff—who have been socialized to the participants—of a partner institution using digital quality controls.
2. Identify local constraints and develop a corresponding set of key performance indicators (KPI).
3. Work with a technical assistance team to monitor performance using the KPI set on tablets or phones at every farm visit. We then sync the data collected at each farm visit with main database allows for real-time dashboarding of progress against hot spots and active course corrections.
4. Verify progress against the constraints, using field staff of a partner institution to annually audit a random square root sample of producers using the KPI set.
5. Measure impact against COSA indicators every three years by using a socialized field staff of partner institutions to survey 100% of participating producers using digital quality controls.

### WHAT WE'RE DOING ABOUT IT

In addition to our direct trade volume, a core component of our responsibly sourced portfolio is built on our commitment to purchasing certified and verified coffee. We offer products under the Fair Trade Certified™, Rainforest Alliance Certified™, USDA organic, and Non-GMO Verified labels. Additionally, we've joined with a multitude of collaborative trade and leadership efforts that we believe will bolster the resiliency of our supply chain, including World Coffee Research and the Coalition for Coffee Communities. See our Local Communities issue brief for more information.

“We are starting to see customers look into Farmer Brothers' organization and through to our suppliers. Transparency is becoming critical.”

*Scott Siers, Senior VP of National Sales,  
Farmer Brothers*

### HOW WE'RE DOING

In 2012, Farmer Brothers implemented a Sustainable Purchasing Policy. This policy stated that as part of ongoing efforts to make our communities more healthful places to live, work, and do business, Farmer Brothers will work diligently to reduce waste and purchase equipment and materials that are non-toxic, recyclable, or made of recycled content.

In the past several years, we've progressed from a basic policy to a cohesive, cross-functional strategy for supplier qualification and code of conduct. But we're still at the beginning of this journey, and so we strive to meet our suppliers where they are and ask them to join us on a path of continuous improvement. As we look toward building transparent and traceable supply chains with all our supplier partners, we're working to set clear standards and patiently pursuing good governance practices throughout the lifecycles of our goods and services.

Our goal is to get 100% of our suppliers to complete our new supplier qualification survey. With all of our suppliers reporting KPIs about food safety, security and sustainability, we can gauge

how to collaborate with our suppliers and support their efforts toward meeting our expectations. After a critical mass of our suppliers participate, we can begin to implement a management plan in which we rank suppliers as red, yellow, and green (high, medium, and low risk). Our highest priority will be to put corrective action in place to minimize the exposure to high-risk suppliers. While we honor our long-term relationships, we must ensure compliance with laws and regulations and promote international principles for sustainable business conduct.

### 2015 METRICS

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**Percentage of procurement budget at significant locations of operation spent on suppliers local to operation<sup>1</sup>**

**99.5%**

of non-coffee suppliers are U.S. based

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<sup>1</sup> Significant locations of operation comprises all 118 Farmer Brothers manufacturing and distribution facilities.