

## **Case Study**

**FOREMOST S.A.**

December 2010 - October 2011



# FOREMOST

## Presentation

Empresa Lácteos Foremost S.A. is a Salvadorian enterprise located in the capital city of San Salvador. The company has over 50 years of experience in the production and commercialization of dairy products, fruit juices, and ice cream for the Salvadoran market. It sells its products under the very popular brand names "Badenia", "Estrella Polar" and "Foremost".



This case study of FOREMOST depicts the main results achieved within the project "Promoting opportunities for social and environmental business in Central America and in the Dominican Republic SCHOKLAND-SME CA&DR Fund".

Please bear in mind that it report not exhaustive; it rather focuses on the Millennium Development Goal 1, 7, and 8 (see chart). This report was prepared by CEGESTI, and it is based on data and indicators provided by FOREMOST and OIKOCREDIT, and each organization is responsible for the veracity of the same.

## The project

### Promoting opportunities for social and environmental business in Central America and in the Dominican Republic SCHOKLAND-SME CA&DR Fund

This initiative has been possible thanks to funds granted by the Ministry of Foreign Affairs of the Netherlands, and the alliance of OIKOCREDIT, ICCO and CEGESTI.

The project aims to contribute to the Millennium Development Goals numbers 1, 7 and 8, by providing financial and technical assistance to small and medium enterprises in the region.

## The Millennium Goals

The Millennium Development Goals are a set of eight time-bound targets that, when achieved, will end extreme poverty worldwide by 2015. At the 2000 United Nations Summit, world leaders from rich and poor countries committed themselves to achieve the goals.

The project "Promoting opportunities for social and environmental business in Central America and the Dominican Republic" has been designed to contribute to the achievement of three of the eight goals:

	GOAL	How does the project intend to achieve the goal?
GOAL 1	Eradicate extreme poverty and hunger	By assuring the creation and maintenance of decent jobs through the strengthening of social responsible companies and its economical exchange with stakeholders
GOAL 7	Ensure environmental sustainability	By supporting companies in the improvement of its environmental performance
GOAL 8	Global partnerships for development	By promoting the alliances for development between companies and national or international actors

More information about the Millennium Development Goals:

<http://www.endpoverty2015.org>

<http://www.minbuza.nl>



# FOREMOST



Empresa Lácteos Foremost S.A. de CV was founded in 1960. The development of the company has been dynamic and sustained. Civil unrests in the last decade of the seventies resulted, among others, in the withdrawal of the company's international shareholders. FOREMOST was able to overcome this difficult phase, and so, when the Peace Agreement was signed in 1990, the company renewed their development plans. In order to be always a leader in the dairy market, FOREMOST continues its modernization process, and feels responsible and proud to have contributed and to continue contributing to the sustainable development of the food industry in El Salvador. *Memorandum for the 40th anniversary of FOREMOST*

## Mission

"We are a competitive enterprise of the dairy and beverages market in El Salvador - which processes and commercializes healthy products, with social and environmental responsibility. We are committed to being the best strategic partner for our clients by applying the best customer care and the highest quality standards; and to our shareholders an excellent source of profitability; while at the same time contributing to the well-being of our society."

## Corporate Values

The main values of FOREMOST represent the essence of its corporate culture, supported by its management, associates and collaborators. Those values are:

- Responsibility
- Excellence
- Effectiveness
- Integrity
- Team work

## Vision

"To become the leading producer of healthy dairy products and beverages of the national and regional market, with social and environmental responsibility, and by strengthening our producers, suppliers and clients, and sharing our profits for the benefit of FOREMOST and the well-being of our society."

## FOREMOST in brief

Founded in	1960
Products	Dairy products, fruit drinks, and ice cream
Labor force	156
Indirect jobs	> 100
Shareholders	4
Annual sales	aprox. 8 Mío. USD
Assets	12,6 Mío. USD

## The project with FOREMOST

FOREMOST was chosen as a beneficiary of the initiative "Promoting opportunities for social and environmental business in Central America and the Dominican Republic". This is due to its contribution towards a holistic development of the region where they operate, as well as its sustainability principles.

Within this project, FOREMOST received a USD 650.000 credit from Oikocredit and the Schokland Fund, as well as technical assistance from CEGESTI, aimed at building capacities, and to improve social and environmental impacts.

### The difficult financial situation of FOREMOST

Based on key financial indicators of the company, the financial situation is as follows.

A considerable decrease in product sales has prevailed in the past years. The lack of liquidity, and the subsequent inability to pay its suppliers punctually, affected the company's ability to sustain a constant raw milk supply. This kind of instability in the production has led to minimum production output, not enough to pay the interests to creditors, which resulted in overdue payments.

The management has made adjustments such as staff reduction, product redesign for cost reduction, adjustments of machinery, and a more efficient use of resources like electricity and water. However, this has not been enough to increase and stabilize liquidity to levels that would allow paying financial obligations on time. The cash flow remained far from being balanced out with income from sales.

As a stabilization strategy, the general management is working on a bailout process with its most representative creditor, in order to reduce the burden on cash flow and to expand the payment term to another 10 or 20 years. Likewise, they have started a negotiation process with foreign investors to achieve long-term leverage for purposes of paying short-term debt, and to attain a certain investment in capital goods. Furthermore, they are modifying the production process in order to create new products such as yogurt and cheese.

### The purpose of the credit

The credit has been intended for improving the liquidity of FOREMOST by means of a long term loan that would provide working capital for the implementation of FOREMOST's strategic plan. The credit was accompanied by a capacity building program aimed at strengthening the company's capacity to take action towards social and environmental sustainability.

### The main results

The program was not fully implemented due to the difficult financial situation of FOREMOST. However, important results have been achieved, including:

- ✓ A strategy towards the irrevocable implementation of the concept of corporate sustainability has been defined.
- ✓ The working conditions for employees have been improved by means of better Safety and Occupational Health management, and an improvement of the organizational climate.
- ✓ Training programs for the staff and the milk producers has been established.
- ✓ Measures for improving food safety have been implemented.
- ✓ Action plans for more efficient resource use in the production area (water, electricity, diesel), and improved waste recycling has been established.

### Sustainability at FOREMOST

The credit as well as the capacity building has had a clear focus on corporate sustainability, by integrating social and environmental elements into existing practices.

The SCHOKLAND-SME CA&DR Fund aims at contributing to the Millennium Development Goals 1, 7, and 8. Due to its location, FOREMOST helps to achieve the Millennium Development Goals of El Salvador.

The following sections show a detailed account of such contributions.



## Promoting social development by strengthening FOREMOST

### SUMMARY

FOREMOST has a direct impact on the development of its stakeholders, which includes producers, employees, consumers, communities, the national government, and financial intermediaries. These stakeholders can benefit from strengthening FOREMOST's competitiveness. This chapter shows the company's contribution to the Millennium Development Goal No. 1.

## Employees

To date, 156 employees work for directly the company, 95% of them have a permanent contracts. Over 40% of the work force is constituted by women. FOREMOST offers its employees fair and decent working conditions, and aspires to give equal opportunities for both genders.

The accident rate is very low among FOREMOST's employees. Since 2010, only one accident has been registered. In spite of the above, the enterprise has taken measures towards maintaining a high level of health and occupational safety. Amongst others, a staff training plan has been scheduled. The plan encompasses issues like health and occupational safety, emergencies, good manufacturing practices, hazard analysis and critical control points (HACCP), and handling of hazardous chemicals.

The company's difficult financial situation during the past years had negative impacts on the working atmosphere and employees' attitudes. In order to improve this situation, a Code of Conduct has been developed, and a variety of social activities and incentives were reactivated, such as celebrating social events and non-monetary rewards as recognitions for achievements. Furthermore, this issue has been integrated in the on-going annual training plan such as ways to achieve corporate success by changing attitudes, and better team work for reaching high performance. Also, uniforms with the FOREMOST logo were given to employees to create a sense of belonging and identification with the company.

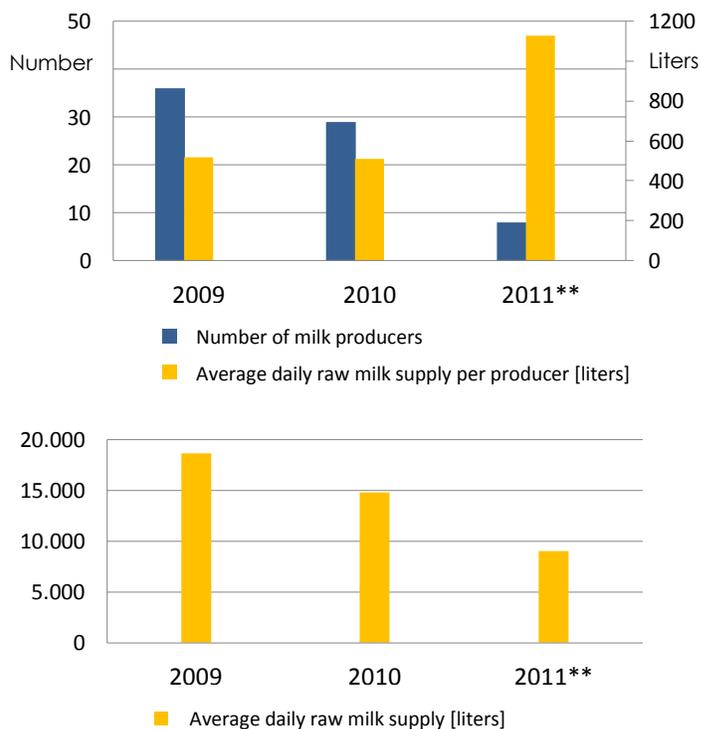


## Producers

FOREMOST is supplied by local producers. Currently, the company purchases raw milk from 8 different providers. Most of these are small producers with relatively limited technological capacities. FOREMOST adheres to a philosophy which benefits its milk producers. Instead of binding their producers contractually, FOREMOST purchases the raw milk always to a fair price just a few Cents per liter over the current average market price.

In order to increase quality and quantity of raw milk, the producers are supported by providing technical assistance and training. With the purpose to decrease negative environmental impacts of the milk production, topics such as energy efficiency and responsible use of agrochemicals have been included in the training activities.

However, due to the financial stress at FOREMOST, milk purchasing has diminished considerably as compared to the year 2010, although average purchase of raw milk per producer, has doubled.



## Consumers

Due to the quality and reputation of its dairy products FOREMOST maintains a high share in the Salvadorian dairy market – 35% of the milk market, and 15% of cream and cheese.

FOREMOST has taken measures to maintain the highest product quality and food safety. Among others, a new manual on how to ensure sanitary conditions during the production process has been prepared; and topics related to quality control has been included in the training plan.

A challenge faced by socially responsible enterprises is that of serving the neediest in the civil society. FOREMOST has developed its first product focused on this particular market – a low cost whipping cream in a minimalistic packaging.



## Communities

FOREMOST is a source of direct and indirect jobs in the rural areas in El Salvador, generating employment opportunities in areas which typically lack job opportunities. FOREMOST's impact in rural communities, and particularly in the milk producing farms, is quite significant.

The enterprise not only generates jobs. They are also committed to help children that are in need. The company is a member of the Shriner's Club in El Salvador which is an association committed to prevention and rehabilitation of children with burns or severe orthopedic indications, in order to offer them to improve their medical treatment and life expectancy.

In 2009, FOREMOST collaborated with the USAID and the National Secretariat for the Family in Public Private Partnership. My means of this initiative, called "Un Vaso de Leche" ("One Glass of Milk") 3790 students from Ataco, Ahuachapan, improved their nutrition by one glass of milk daily.



*Livestock and milk production are an important source of employment in rural areas of El Salvador. Typically, producers with limited technological capacities and lack of trained personnel..*



## National Government

FOREMOST is considered as an integral part of the Salvadoran society. The enterprise contributes in ways such as paying taxes, and adding value to the development of the civil society.

## Financial Intermediaries

FOREMOST maintains good business relations with financial intermediaries. The OIKOCREDIT SCHOKLAND consortium is a key ally that provided credit for increasing liquidity and working capital for the implementation of the strategic plan and of the enterprise.



*Children of Ahuachapan which thanks to the Project "Un Vaso de Leche" enjoy a more balanced and healthy nutrition..\**



# Environmental Sustainability

## Summary

FOREMOST is on the way to measure and significantly improve their environmental performance in areas such as energy efficiency, carbon dioxide emissions, efficient use of materials and solid waste treatment - both in the plant itself and in rural areas where the raw material is produced.

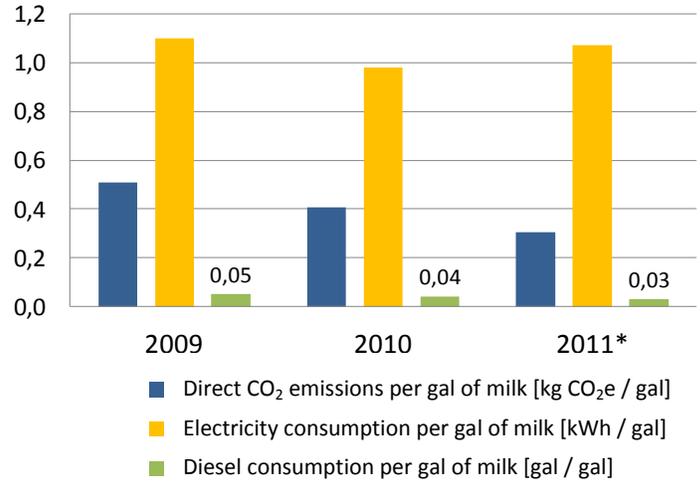
## Efficient use of materials, energy efficiency, and climate change

A bunch of measures to reduce consumption of energy nonrenewable resources and water have been implemented.

Schedule of operating hours was optimized on diesel boilers to save diesel whenever possible. For the purpose for minimizing heat and cold loss in the production process, the thermal insulation of steam lines and cold water distribution were reviewed and renewed. Further energy savings were achieved by stopping the production and subsequent storage of ice cream. Through this measure electrical energy was saved in the cold storage rooms. Additionally, a modern and more efficient cold storage room has been built.

Measures to avoid waste of resources included optimizing the raw milk reception, implementing new cleaning procedures for equipment and vehicles, planning of a CIP-system ("Clean-in-Place") for the effective cleaning and disinfection of the production line. Some cleaning procedures have been changed in order to reduce the use of chemicals.

Several further corrective measures with a minimum total investment of \$ 50.000 have been planned such as changing the valves, gaskets, etc.



## Solid waste management

In order to improve management of inorganic solid waste, new separation and recycling procedures are being implemented. A set of waste bins for the separation of most significant waste streams, such as paper and cardboard, plastic containers, plastic bags as well as mixed waste, has been installed in various areas throughout the company. Additionally, the junk that was stored in the yard of the company had been sold for making money and freeing up space at once.



Corrective maintenance is an integral part of improvements aimed at reducing negative environmental impacts.

## Training

In the framework of collaboration with the Schokland-FUND were trained senior management on issues FOREMOST Strategic Guidelines for Corporate Sustainability, cleaner production, Safety and Occupational Health, and Corporate Governance and thereby increase their management capacity.

During this project with the SCHOKLAND-FUND, FOREMOST's top management got trained on topic such as strategic guidelines for Corporate Sustainability, Cleaner Production, Occupational Health and Safety, Corporate Governance; this aimed at expanding its management skills.

Proper solid waste management starts with sorting and separation of waste.



\* From January to October 2011



# Global Partnership for Development

## SUMMARY

New and innovative mutually beneficial partnerships are key to sustainable development. FOREMOST aims at developing strategic partnerships that strengthen the company itself and its suppliers. The company already is a member of several organizations that have the power to influence civil society towards sustainable development.

## Alliances for Development

Strategic alliances are essential to competitiveness and sustainable corporate development. FOREMOST is an active member of several national and international associations:

- The Salvadoran Association of Industrialists - ASI - is committed to promoting the economic and social development of El Salvador by strengthening the country's industrial sector (Web page: <http://industriaelsalvador.com/>).
- The Union of Salvadoran Business Leaders - UDES – is a union that seeks to promote social responsibility among entrepreneurs. In its 40 years, UDES has benefited more than 15.000 people of poor communities.
- The Association of Shareholders of Milk Processing Plants - APPLE - brings together the largest dairy companies in the country.
- The Salvadoran Foundation for Economic and Social Development - FUSADES - is a private, nonprofit organization dedicated to research and studies for promoting public policies for sustainable development in El Salvador. FOREMOST is one of its founders. (Web page: <http://www.fusades.org/>).
- Shriners Club of El Salvador is an association committed to the prevention and comprehensive rehabilitation of burned children with orthopedic problems, providing opportunities and improving life expectancy. (Web page: <http://www.shrinerselsalvador.org/>).

Often, Dr. Carlos Enrique Merazzo Pinto, president of FOREMOST, not only represents the company in these organizations but is an active and committed member who assumes responsibility for administrative positions.

FOREMOST also collaborates with the SCHOKLAND-OIKOCREDIT-CEGESTI consortium to improve the liquidity of the company by means of a long term loan, and to strengthen its associated small farmers.



*Through the collaboration with the consortium Schokland-OIKOCREDIT-CEGESTI the managers have been trained on key topics of corporate sustainability.*

# Closing Message



“We must have the courage to innovate; innovation is the response of responsible self-criticism aimed at improving. In El Salvador we should, through education, improve our culture, and have an attitude of pride towards change”

Dr. Carlos Enrique Merazzo Pinto  
President of the Board of Directors  
Foremost S.A. de C.V.

\* Source: Interview published in “El Pais”, September 2008: <http://elpais.com.sv/elsalvador/?p=644>



## FOREMOST's Sustainability Indicators

The following pages show the indicators detailed in the previous chapters.

## Millennium Goal

## Dimension

## Indicator



Millennium Goal	Dimension	Indicator	2009	2010	2011*
1 ERADICATE EXTREME POVERTY AND HUNGER	Government	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Taxes paid [US \$]	58.770	30.728	0
	Expenses	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Expenses [US \$]	369.680	405.768	222.395
	Shareholders	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Number of shareholders	4	4	4
		Dividends [US \$]	0	0	0
		Average dividends per shareholder [US \$]	n.d.	n.d.	n.d.
		ROE (return on equity)	2,12	0,82	0,28
	ROA (return on assets)	1,1	0,38	0,13	
	Finances	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Annual sales [US \$]	8.958.630	7.470.155	3.218.031
		Total assets (liabilities and equity) [US \$]	11.359.601	12.589.735	12.671.652
		Total equity [US \$]	5.981.606	5.908.953	5.925.904
		Assets turnover ratio	80,7%	71,0%	58,9%
		Profit margin	6,2%	6,5%	0,3%
		Operational sustainability ratio	102,0%	101,0%	102,0%
		Interest coverage ratio	1,37	1,30	1,08
		Liquidity ratio	0,39	0,21	0,22
		Acid Test	0,22	0,17	0,19
		Solvency (total debt / total equity ratio)	0,89	1,13	1,13
Equity ratio (total equity / total assets)	53,0%	47,0%	53,0%		
Employees	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011**</b>	
	Direct jobs	22	18	12	
	Indirect jobs (subcontracts)	243	194	144	
	Total salaries paid (including health insurance) [US \$]	1.105.385	860.803	384.733	
	Average annual salary per employee (including health insurance) [US \$]	4.171	4.060	2.466	
	Female employees (total and %)	100 (38%)	92 (43%)	65 (42%)	
	Female employees at operational level	16	14	10	
	Female employees at administrative level	84	78	55	
	% of job rotation	n.d.	n.d.	n.d.	
Average number of temporary jobs	10	22	7		
Number of accidents on the job	0	0	0		
Farmers	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011**</b>	
	Number of milk producers	36	29	8	
	Average daily milk supply	18702	14833	9024	
Other suppliers	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011**</b>	
	Number of suppliers of basic supplies (packaging, boxes, electricity, etc.)	86	74	48	
	Total purchases per suppliers [US \$]	2.603.508	2.275.494	1.740.948	
	Average purchases per supplier [US \$]	30.273	30.750	44.097	

\* January to June 2011

\*\* January to October 2011

Millennium Goal	Dimension	Indicator			
 <p><b>7</b> ENSURE ENVIRONMENTAL SUSTAINABILITY</p>	Air emissions	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Carbon dioxide emissions from diesel and electricity [t CO <sub>2</sub> e]	1,718	1,326	648
		Carbon dioxide emissions from diesel and electricity per gallon of raw milk [kg CO <sub>2</sub> e]	0,508	0,407	0,305
	Electricity consumption	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Annual electricity consumption [kW]	312	240	124
		Daily electricity consumption [kWh]	7,484	5,757	3,977
		Daily electricity consumption per liter of raw milk [kWh]	1,10	0,98	1,07
	Solid waste recycling	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Plastic waste recycled: containers [lb]	13,127	9,288	10,577
		Plastic waste recycled: containers per gallon of raw milk [lb]	0,007	0,006	0,015
		Plastic waste recycled: bags [lb]	2,669	5,245	3,005
		Plastic waste recycled: bags per gallon of raw milk [lb]	0,0015	0,0037	0,0041
	Diesel consumption	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Diesel consumption for trucks and boilers [gal]	101,261	78,417	36,870
		Diesel consumption per gallon of raw milk [gal]	0,05	0,04	0,03
	Water consumption	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Water consumption [m <sup>3</sup> ]	48,511	46,172	38,257
		Water consumption per liter of raw milk [m <sup>3</sup> ]	0,02	0,02	0,03

\* January to September 2011

Millennium Goal	Dimension	Indicator			
 <p><b>8</b> A GLOBAL PARTNERSHIP FOR DEVELOPMENT</p>	Partners	<b>Key indicators</b>	<b>2009</b>	<b>2010</b>	<b>2011*</b>
		Partnerships at national level	4	4	4
		Partnerships at international level	1	1	1

\* January to October 2011