## Preface: Organizational Profile

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P.1. Organizational Description

With a 115 year history, Nestlé Purina Pet Care Company (NPPC) is indeed a truly rare company. We have a long history of being a pioneer in pet food, as well as being the North American market leader with solid financial results. What is even more remarkable is that we have always been a company known as an exceptional place to work. Our record of caring for our employees, their families, our community, and of course pets, set us apart from many other well-known consumer product companies. We are a company that has been able to achieve success in all areas: financial, market, customer satisfaction, ethics, community, environment, and people. Some of our more recent accomplishments include: consistently increasing customer satisfaction after the acquisition of Ralston Purina by Nestlé in 2001, and thriving during one of the worst recessions America has seen in 50 years. Our deep knowledge of pets and the people who love them has enabled us to develop a series of innovative new products and grow sales in the pet food category for our customers. Five of the seven brands responsible for growth in the pet food category are Purina brands, which are among the fastest-growing brands.

In 1894, William H. Danforth founded the Robinson-Danforth Commission Company in St. Louis, featuring a new animal feed product made of corn, oats and molasses. Previously, it was common practice to add cheap fillers such as sawdust to animal feeds. In 1898 Danforth entered the human foods business with “Purina” brand whole-wheat breakfast cereals. The name “Purina” was coined to signify: “Where purity is paramount,” the company’s first slogan. In 1902, Purina earned the endorsement of “Dr. Ralston,” a health expert of the time, and the name of the Company was changed to Ralston Purina Company. Today, the red and white checkerboard is one of this country’s most recognizable logos. Danforth selected the logo based on his memory of the Brown family from his youth, all of whom dressed in clothes from the same bolt of checkerboard cloth. According to legend, “You couldn’t miss a Brown kid.” Danforth was not only a pioneer in animal food and business, but was known as one of the early motivational experts. His 1931 book “I Dare You” remains in print today, and outlined a four-square development plan - Stand Tall, Think Tall, Smile Tall, and Live Tall. The “Four Talls” formed the foundation for the Purina values and culture. Today the Purina values are called the “Five Talls,” and include a recently added fifth one: “We create tall with innovation.”

During the 1990’s and into 2000, Ralston Purina sold or spun off all of its non-petcare businesses. In 2001, Purina became part of Nestlé and is the number one U.S. pet care company in sales, volume and market share.
is not only successful from a financial and marketplace standpoint, but one that really does enrich and improve the lives of pets and the people who love them.

(4) NPPC's Headquarters is in St. Louis, Missouri, where the company was founded. Regional sales offices are located near major retail customers headquarters such as Target in Eagan, Minnesota, and Walmart in Fayetteville, Arkansas. Manufacturing plants are spread around the country with facilities in Iowa, Colorado, Georgia, Missouri, Nebraska, New York, Oklahoma, Pennsylvania, Arizona, W. Virginia, California, Ohio and Wisconsin. We have three major types of manufacturing sites: wet food, dry food and cat litter.

(5) NPPC is regulated by a number of government organizations and associations, including AAFCO (Association of American Feed Control Officials), EPA, FDA, IRS, MSHA (Mine Safety and Health Administration) for litter, OSHA, state agricultural departments, and USDA.

b. Organizational Relationships

(1) NPPC is a Missouri Corporation and ultimately a wholly-owned subsidiary of Nestlé S.A.

(2) NPPC has three primary customers: Pets - the dogs and cats that consume or use our products, Consumers - the pet owners who purchase our products for their pets, and Customers - the retailers who stock and sell our products in their stores.

<table>
<thead>
<tr>
<th>CUSTOMER</th>
<th>REQUIREMENTS</th>
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<tbody>
<tr>
<td>Pets</td>
<td>Freshness, taste; nutrition</td>
</tr>
<tr>
<td>Consumers</td>
<td>Brand trust, food safety; nutrition; palatability; value</td>
</tr>
<tr>
<td>Customers</td>
<td>Brand image; consumer demand; sales; margins; food safety; service</td>
</tr>
</tbody>
</table>

Each of these three major types of customers (pets, consumers, and customers) is further broken down into smaller segments based on similar wants, needs, priorities, and characteristics.

NPPC is also involved with a number of other stakeholders, including Nestlé, distributors, suppliers, the communities in which we have facilities, the environment, influential (breeders, dog/cat enthusiasts, shelters, veterinarians) and our employees.

(3) NPPC’s major suppliers are “front-end” suppliers of raw materials, including meat, grain, vegetables, vitamins, and other food ingredients; packaging suppliers; and “back-end” suppliers such as railroads and trucking firms that transport our products. We also work with several advertising agencies and marketing firms that help us sell our products and promote NPPC brands. NPPC employs a systematic supplier selection process to help establish quality control. Each load of raw materials received from suppliers are inspect ed by NPPC.

P.2 Organizational Situation

a. Competitive Environment

(1) NPPC is the market leader in pet food and cat litter throughout the U.S. and Canada. The checkerboard trademark is one of the most recognizable of all pet food brands. We compete with several multi-national companies, each having a number of pet food brands.

The U.S. pet food industry is approximately $17 billion, and the U.S. has 72 million cats and 58 million dogs in 106 million households. Pet ownership trends have been relatively flat for the past several years, while dollar growth of the category has averaged about 4% per year.

(2) NPPC products are differentiated from our competitors’ products on a number of different dimensions. We have many differentiators for consumers and customers that make our company, our products, and our service competitive.

We focus on developing high-quality products and marketing strategies that gain market share. Pro Plan dog food, for example, is used by the past five Best in Show winners at the Westminster Dog Show, and 93 of the top 100 show dogs in the country.

(3) We gather a great deal of data from consumers, pets, market and consulting studies; our own industry experts; and other Nestlé businesses.

NPPC has studied and adopted processes from a number of companies in a wide variety of industries. Our customer report card system and OCQ process are based on processes of former Baldrige winning companies. We also obtain a wide variety of data from sources such as the American Customer Satisfaction Index developed by the University of Michigan, the Performance Monitor from the Advantage Group, and the Hay Group.

b. Strategic Context

NPPC faces a number of strategic challenges that cut across a variety of dimensions. Figure P.2.2 outlines the major challenges we face as well as our major strategy for addressing each one. Our key strategic advantages are presented in Figure P.2.1.

c. Performance Improvement System

The key elements of NPPC’s performance improvement system are our values, consumer knowledge, selection of the right people, clear direction and alignment, entrepreneurial culture, autonomy with resources, and appropriate reward and recognition. This performance improvement system has created successful results, including sales and profit, innovative new products.
Our strategic plan is called the “Blueprint for Success” and includes what we call our “Pillars for Success.” There are five pillars or areas of focus that stay the same from year to year. As part of our performance improvement efforts, we have done extensive benchmarking of Baldrige winning companies and taken their best processes and adapted them to NPPC. Examples include our leadership system, employee compensation, strategic planning, complaint management, recruiting/selection, customer relationship management, and customer satisfaction measurement.

We teach our employees a wide variety of performance improvement tools, allowing them to use what makes sense for the situation. In some cases, performance improvement systems are widely deployed, and in other cases, they are only implemented where applicable. For example, our manufacturing sites follow an approach that is based around the principles of Lean and Six Sigma. Other areas in the company follow different approaches tailored to their processes.

P.2.2 - Strategic Challenges

An example of a widely deployed, systematic model for assessing and improving performance is our Organizational Capabilities Questionnaire (OCQ). It was piloted in 1994, and we have refined and improved the process every year since then. This is not a typical employee climate survey. The OCQ is a comprehensive survey that assesses the key behaviors, processes and outcomes associated with successful execution of our Blueprint for Success (our strategic plan), meeting customer requirements, employee engagement, and leadership effectiveness. Because each department has a specific role to play in the execution of the Blueprint, we customize the survey for each specific function. In some functions, this survey exceeds 150 items. Each team of three or more receives a customized report and develops and executes an action plan based on their unique results. These efforts result in literally thousands of improvement actions executed each year, all of which are linked to our Blueprint. Another key element of this model is that results are only used for continuous improvement and development, not for performance evaluation or administrative purposes. The company-wide return rate over the past year was 95% with a high of 100% in multiple departments (such high return rates are evidence of the high levels of employee engagement).

Some of the improvements to the OCQ include:

- Items that allow us to benchmark against other companies
- Items that allow us to evaluate and improve leadership performance
- Establishment of statistical linkage to specific business results and customer satisfaction where possible, thus validating the survey

<table>
<thead>
<tr>
<th>STRATEGIC ADVANTAGES</th>
<th>METHODS OF DIFF.</th>
<th>OUTCOMES</th>
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<tbody>
<tr>
<td>Brand Image</td>
<td>Marketing; Advertising; Promotions; Packaging; Retail Presence</td>
<td>Market share and growth; customer satisfaction; volume</td>
</tr>
<tr>
<td>People</td>
<td>Systematic selection processes; culture (Five Tails); experience &amp; expertise</td>
<td>New hire quality; employee satisfaction &amp; engagement; seniority &amp; turnover</td>
</tr>
<tr>
<td>Breadth and Strength of Product Portfolio</td>
<td>Match products to all customer segments</td>
<td>Relevant brands; sales &amp; market share; better advertising</td>
</tr>
<tr>
<td>Innovation</td>
<td>Aggressive innovation and R&amp;D; dedicated resources</td>
<td>% sales from I/R; reputation for Innovation; growth of category &amp; company</td>
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<tr>
<td>Best Nutrition and Science</td>
<td>Dedicated humane cat and dog research facilities</td>
<td>Healthier pets; longevity; consumer loyalty; R&amp;D, science</td>
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<tr>
<td>Quality and Food Safety</td>
<td>HAACP; ISO; NCE; supplier management</td>
<td>Large volume of consistently high quality product; defects limited</td>
</tr>
<tr>
<td>Distribution / Logistics</td>
<td>Plant locations; multi-functional customer team; menu pricing</td>
<td>On time; case fill; low transportation costs; reduced energy usage</td>
</tr>
<tr>
<td>Customer Service</td>
<td>Dedicated customer teams</td>
<td>Customer Satisfaction; on time case fill; customization; relationship</td>
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<tr>
<td>Ethics</td>
<td>Humane cat and dog research; business practices; formal ethics program; sustainability; community involvement</td>
<td>Customer satisfaction; ethics; Best Place to Work; trust</td>
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<tr>
<th>STRATEGIC CHALLENGE</th>
<th>STRATEGY</th>
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<tbody>
<tr>
<td>Pet ownership trends</td>
<td>Create more premium brands to grow market share</td>
</tr>
<tr>
<td>Attracting top talent</td>
<td>Awards such as Best Place to Work; positive press; Nestlé career; quality of life in St. Louis</td>
</tr>
<tr>
<td>Maintaining Quality</td>
<td>We do virtually all our own manufacturing in U.S. plants</td>
</tr>
<tr>
<td>Improved nutrition</td>
<td>Best science; best ingredients; prescription diets</td>
</tr>
<tr>
<td>Raw material cost</td>
<td>Joint procurement with Nestlé; premiumization of brands; price increase when necessary</td>
</tr>
<tr>
<td>Food safety</td>
<td>QC on all materials and excellent process control; NIR technology in all plants; no third party QC</td>
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<tr>
<td>Sustainability (environmental)</td>
<td>Recycling; energy; water and waste reduction</td>
</tr>
<tr>
<td>Sustainability (company)</td>
<td>Product leadership; innovation; consumer insights; nutrition; health and wellness</td>
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1. LEADERSHIP

1.1 Senior Leadership: How do your senior leaders lead?

a. Vision, Values, and Mission

(1,2) Pat McGinnis, CEO and President of Nestlé Purina and Terry Block, President and COO of Nestlé Purina North America, worked with the leadership team to create the vision of the company. They examined the strengths of the business and chose to focus on our strengths, pet food and related products. This led to the formation of our current mission statement. Our vision of a checkerboard in every involved pet owner’s home is considered both inspirational and realistic as the pet care market leader in North America. New brands, new products, and using our knowledge of the pet consumer to focus our products are some of the key strategies that will lead us ever closer toward this vision. The key results associated with our vision are sales growth, market share, and households with NPPC products, which are included in 7.2 and 7.3

NPPC values were originally set in 1894 by our founder William Danforth, with his “Four Talls”. The current values (Five Talls) were created by a cross-functional team of individuals who represent most all the departments in the company. This team gathered information from customers, suppliers, stakeholders, and employees at all levels to define what NPPC stands for and aspires to. The team managed to build on its history by incorporating Danforth’s original values into our present ones. NPPC’s vision and mission have been crafted into a singular statement that defines who we are, what we stand for, and where we want to go in the future:

*We stand for trust. We earn it every day as we enrich the lives of pets and the people who love them. We earn it with our integrity, our passion, our expertise, and our relentless dedication to performance as we move toward the future of Nestlé Purina Pet Care - the day when a Checkerboard is in every involved pet owner’s home.*

The vision and values (Five Talls) are communicated to our employees and key stakeholders using a wide variety of methods, including distribution of the Blueprint to all employees. Our popular employee newsletter, QUEST, includes an article in each issue on how employees have demonstrated our values. We also have a reward/recognition program linked to our values, called the Five Talls Award. There is information on our web site, available to both employees and the public, and the mission, vision, and values are communicated via meetings, posters, banners, wallet cards, binder inserts, videos and training workshops.

The most powerful way of communicating our values is via the behavior and decision making of our senior leadership team.
to continually enhance their skills. NPPC offers a variety of development programs through our internal Universal Learning Curriculum and has an Organization Development team dedicated to company-wide leadership development, performance improvement, team building, and strategic development. NPPC also partners with universities to develop customized leadership curricula for grooming the current and future leaders of our company.

NPPC has a dedicated Learning Center at our headquarters that includes not only meeting rooms, but a full scale model home so that employees can learn first-hand how consumers experience our products from the time they drive into the garage until the empty packaging is put in the trash. Our primary pet research facility provides state-of-the-art facilities for testing new foods and products and caring for the many dogs and cats that live there. Purina Farms, a separate facility open to the public, allows members of the community, including many children, to frequently visit the tourist center and canine competition areas. In fact, it is the number three most visited attraction in St. Louis.

NPPC’s approach for cascading its leadership system is to create and deploy an entrepreneurial management style that is consistent with Nestle’s leadership and management framework. This approach defines the expectations, parameters, skills and competencies to emulate. Our management style is characterized by a great deal of autonomy, empowerment and trust, which fosters agility in our decision making.

We have a systematic approach for allowing leaders to evaluate and improve their skills that incorporate three key feedback mechanisms. First, leaders get their business results reported on a regular basis. Secondly, leaders get feedback from their supervisor via our performance management system. Another important way for leaders to evaluate and improve their leadership skills is through our Organizational Capabilities Questionnaire (OCQ), described in the Organizational Profile, where individual managers get feedback from their direct reports on their leadership and management skills. Because the OCQ leadership feedback is designed only for development and improvement purposes, no one other than the leader sees this feedback. We also have initiated a technical training group that is developing technical training for the operations department as another means to transfer knowledge.

NPPC’s succession planning approach is a two-tiered process deployed to all levels of management. For key leadership positions, we have a comprehensive succession planning process that is more than a way of deciding who will replace retiring leaders. It is a key part of the NPPC knowledge management system. NPPC’s other approach to career and succession planning is called Organizational Capabilities Review. This process, which is close to 100% deployed, is an approach for linking business plans, HR plans, and individual career goals/desires.

b. Communication and Organizational Performance

(1) NPPC’s approach to communication is that it must be frequent, personal, and incorporate a variety of media and methods. Senior leaders pride themselves on accessibility.

Table 1.1.b.1 depicts the wide variety of structured methods used for leaders to communicate with the workforce.

NPPC leaders are involved in many different employee recognition programs. Senior leaders decide on the criteria, review and approve selections, and hand out the following awards and recognition:

- Pillar Awards – linked to accomplishment of Blueprint objectives
- Five Talls Awards – linked to behavior and accomplishments that characterize Purina values
- Customer Excellence Awards – reinforces ethics, customer satisfaction and business results
- Special Bonuses – linked to achievement of Blueprint goals and objectives and overall performance
- Employee bonus program linked to business results and achievement of Blueprint goals
- Innovation Awards – designed to reward innovative ideas and improvements to processes/products

The Pillar Award ceremony each year is extremely popular. There is a different light-hearted theme each year. For

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<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
<th>Presenter</th>
<th>Intent</th>
<th>Audience</th>
<th>One/Two Way</th>
<th>Assessment</th>
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<tr>
<td>Face-To-Face Meetings</td>
<td>Quarterly</td>
<td>Senior Leaders</td>
<td>Status, Priorities</td>
<td>All employees</td>
<td>Two-Way</td>
<td>Periodic Survey</td>
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<tr>
<td>Guest newsletter</td>
<td>Every other month</td>
<td>Senior Leaders/PR</td>
<td>Company News</td>
<td>All employees</td>
<td>One-Way</td>
<td>Periodic Survey</td>
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<tr>
<td>Floor Meetings</td>
<td>Monthly</td>
<td>Senior Leaders</td>
<td>Status, Priorities</td>
<td>All employees</td>
<td>Two-Way</td>
<td>Periodic Survey</td>
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<td>Monthly Voice-mails</td>
<td>Monthly</td>
<td>VP Sales</td>
<td>Status, Priorities</td>
<td>Sales employees</td>
<td>One-Way</td>
<td>Periodic Survey</td>
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<tr>
<td>Emails</td>
<td>Daily</td>
<td>Senior Leaders</td>
<td>Inform employees of important issues</td>
<td>All employees on computers</td>
<td>One-Way</td>
<td>Periodic Survey</td>
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Table 1.1.b.1 - Leadership Communication Methods
example, in 2009, senior executives dressed as superhero heroes to present the awards to the winning teams.

Along with these formal recognition programs, senior leaders make a point of spending time each month visiting NPPC departments and facilities around the country to provide a mechanism for informal recognition opportunities.

(2) Purina has a comprehensive performance management system deployed to all levels that includes setting expectations and goals, defining expected behaviors and action plans, and making clear links to performance. We create a focus on action to accomplish our goals and objectives using the following techniques:

- Deployment and communication of the Blueprint down to all levels and facilities
- Use of metrics and targets for each of the Pillars in the Blueprint
- Regular review of all key performance metrics
- Systematic analyses of performance performed on a regular basis and linked to action plans and strategies
- Definition of links/correlations between leading and lagging metrics and between measures of customer/employee engagement and business results
- Reward, recognition, and compensation linked to achievement of balanced performance excellence
- Strict focus on behavior consistent with our values as well as achievement of results - the approach/process is just as important as the outcome
- Deployment of the OCQ to all facilities, departments and almost all facilities within NPPC as a way to drive the voice of the customer into all of our processes and practices
- We have refined and improved this performance management system many times in the last 16 years and based many of our approaches on benchmark organizations and Baldrige winners.

Metrics for evaluating NPPC’s performance are mostly derived from our longer-term plan and our annual strategic plan. Each of the “Pillars” is a separate area of responsibility for NPPC and includes subsidiary objectives, measures, and strategies/initiatives. In addition to the metrics tied to individual Pillars, we have identified the following as overall goal metrics:

- Sales growth (organic growth and real internal growth - excludes growth from price increases)
- Profitability (consolidated earnings before interest and taxes)
- Market share
- Controllable working capital (trade receivables + inventories + trade payables)

These key operational metrics are common across most Nestlé businesses, and we have set both annual and longer-term targets for the measures. Leaders review the performance levels and trends on these metrics on a regular basis. These are not the only metrics senior leaders review on a regular basis. A more comprehensive list can be found in Item 4.1.

The frequency with which each metric is reviewed depends on the metric (in some cases daily such as production and quality data). Leaders and managers can drill down from overall performance metrics into lower level metrics and data to help diagnose problems and identify opportunities for improvement.

NPPC has made a number of changes and improvements to our performance metrics over the last ten years. Most recently the improvements include the addition of “Renovation/Innovation” metrics, and the inclusion of a number of leading or future-focused metrics such as Promotion Effectiveness, New Hire Quality, Ingredient Variance, and Customer Engagement Index. Results for many of these recently designed performance metrics are still being piloted.

1.2 Governance and Societal Responsibilities
- How do you govern and fulfill your societal responsibilities?

a. Organizational Governance

(1) NPPC has its own Corporate Compliance Committee and abides by the Nestlé Management and Business Principles. Our governing committees reside at our headquarters in St. Louis. Audits (e.g., compliance and process optimization) are also conducted on a regular basis by the Nestlé internal audit organization. Audit findings are shared with NPPC senior management as well as the parent company to ensure accountability. Action plans related to audit findings are given high priority by senior leaders.

To ensure transparency, governance and performance data are shared with relevant stakeholders on a regular basis via reports, newsletters, and meetings. To ensure autonomy, our chief audit officer has a primary reporting relationship to Nestlé S.A.

(2) The performance of the CEO, President, and senior leaders at NPPC is evaluated and developed multiple ways:

- Results - levels and trends on key performance metrics compared against objectives/targets
- Progress & Development Guide (PDG) - individual development plans completed by everyone in the company
- Customized Leadership Development - multiple programs in U.S. and international
- Discretionary Development Activities - availability of more standardized development activities via Nestlé’s training facility, International Institute of Management Development (IMD), executive MBA programs, various Universal Learning Curriculum options
b. Legal and Ethical Behavior

(1) NPPC has a four-fold strategy for ensuring that our products are safe for animals, people, and the environment: (1) best science, (2) ongoing consumer and pet expert feedback, (3) controlling all raw materials, and (4) manufacturing quality controls. NPPC has significant investments into science, nutrition, and new product development.

Consumers and pet experts provide Purina with a great deal of daily feedback on our products. Our web sites make it easy for consumers and professionals to interact with the company, seek information, and provide us with feedback. In fact, consumers can get information about anything related to their pet from veterinarians via our cat and dog web sites. Our Petcentric Places mobile app was ranked no. 4 in Forbes magazine list of top 10 mobile applications of 2009.

We only buy ingredients from suppliers we have certified. Then, we still do 100% inspection of all ingredient shipments. The majority of ingredients used in our pet food products are sourced from the United States, and 99% of our pet food is manufactured in NPPC-owned, North America plants.

Overall, our manufacturing and quality controls are comparable to a level of quality normally associated with human food. For example, we have fully implemented HAACP and are nearing full implementation of ISO 22000 in our pet food plants. NPPC exceeds food safety standards from the FDA, USDA, and AAFCO. We also use the Nestlé Good Manufacturing Practices, which is a process whereby a cross functional “certification” group visits each factory to review it against standard operating procedures. This process is focused on learning and development, not evaluation. Every factory is covered on a rolling 18 months.

We have a prevention-based approach to managing and measuring compliance. Some of the key components of our approach include setting clear standards, communications, training, ongoing measurement and feedback, root cause analysis, audits/inspections, and process improvement where needed. Specific measures and goals have been developed for all key risk areas, including employee and food safety, legal and regulatory compliance, ethics, and relevant accreditations (e.g., ISO, HAACP).

(2) NPPC has a comprehensive prevention-based approach to ethics. Each year, employees are required to read and sign a conflict of interest questionnaire to make sure they understand NPPC policies and situations where a conflict may exist. Along with the preventive metrics and approaches previously mentioned in 1.2.a(1), we also have a process for detecting and handling problems when they occur. Employees have access to an anonymous phone number they can call to report possible ethical violations. Each issue is investigated, and actions are taken quickly to resolve the situations as needed. Real incidents are translated into case studies and used in our ethics training so that similar behavior does not occur in the future. NPPC leadership has a long history of doing the right thing when faced with a choice between ethical actions and short-term profits. Some of the metrics we use to evaluate the success of our ethics and governance program are: audit findings (number and severity), remediation of audit findings, ethics training tests and attendance, supplier ethics audit findings and remediation, and calls to the anonymous phone number.

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<thead>
<tr>
<th>Key Community</th>
<th>Programs</th>
<th>Example Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dogs &amp; Cats</td>
<td>One Hope Shelter Network, Rally to Rescue, ARF, AKC Canine Health Foundation</td>
<td>$10M to animal shelters; $6M to AKC Canine Health Foundation</td>
</tr>
<tr>
<td>Pet Owners</td>
<td>Disaster Relief, Humane Societies, Pets for People</td>
<td>85K lbs food &amp; $50K to 2008 Midwest flood relief efforts; 80K lbs food &amp; 48 pallets of litter to hurricane Ike &amp; Gustav victims</td>
</tr>
<tr>
<td>Local Communities</td>
<td>United Way, Red Cross, Boys &amp; Girls Clubs, Pets for People</td>
<td>$1M+ to United Way 2008 &amp; 2009</td>
</tr>
</tbody>
</table>

Table 1.2a.1 - Key Communities & NPPC Programs/Results

c. Societal Responsibilities and Support of Key Communities

(1,2) NPPC’s Community Affairs department has developed our strategy for community support. In selecting causes and groups to work with, we strive to achieve:

- Balance - contribute our resources to a number of causes and types of organization
- Focus - select causes and organizations that relate to our core competency - pets and pet products
- Need - select organizations that are the most needy
- Impact - work with organizations where we can have a maximum impact for animals, pet owners, and the NPPC image
Table 1.2a.1 includes a summary of the key communities we serve and a summary of some of the Purina programs.

NPPC continuously evaluates and improves our approach to community support to focus mostly on causes impacting pets and their owners, and the communities in which we have facilities. We have created a number of programs and networks that provide great benefit to animals and their owners in time of need. Our website provides information on health, nutrition, and behavior to pet owners. Our legacy of caring for pets and their owners has been part of NPPC since our founding over 100 years ago.

2. STRATEGIC PLANNING

2.1 Strategy Development: How do you develop your strategy?

a. Strategy Development Process

(1) We have one-year, three-year and five-year horizons for our strategic planning. The Blueprint is the output of our annual planning process. The Market Business Strategy addresses a three-year time horizon. In 2010 we are launching our Business Excellence 2015 process, which is a 3-5 year forward look at the retailing landscape.

The annual Blueprint is created using a four-phase process.

PHASE I: Analysis: complete an assessment of Strengths, Weaknesses, Opportunities and Threats (SWOT) and a Situational Assessment. This involves reviewing past performance, long-term goals, inputs from Nestlé, and performance of competitors. Documentation of best practices and key lessons learned is one of the inputs to our strategic planning process. Routine analysis is done every year, but a more comprehensive analysis of the market, competition, and key trends is done every three years. The output of this first phase is a comprehensive analysis and review of core competencies, strategic challenges, and strategic advantages, which is a key input for Phase II where key strategies are developed.

PHASE II: Development - During this second phase, leaders create goals, objectives, targets, broad strategies, and specific action plans and projects designed to achieve the goals and objectives. This is done using a cross-functional team, including leaders from Marketing, Sales, Manufacturing, Product Supply, HR, Finance, and Innovation.

PHASE III: Deployment and Integration - We assign responsibility for achievement of objectives and action plans and cascade the broader action plans into more detailed strategies for individual teams, facilities, and product lines. The outputs of this phase are project/account plans, budgets/resources, responsibilities, and linkages to other systems such as compensation, recognition and individual performance plans (officially known as the Progress & Development Guides).

PHASE IV: Manage Performance - We monitor and manage performance against our plans on a regular basis.

For example, we review a number of metrics daily such as safety, sales, production, quality, and on-time delivery. We review performance on these and other measures at least monthly in sales review sessions, monthly floor meetings, and staff meetings in various departments and locations. We not only review and analyze our performance against goals/targets, but we often need to change goals and strategies or create new ones. This is our dynamic forecast process. Situation analysis is not an annual event at NPPC. We are constantly monitoring data, including consumer trends, retail trends, and other factors that may impact our strategy. By having a fluid and flexible approach to planning and managing performance, we are an agile organization that can change course when necessary. Table 2.1.1 depicts the timing of events in the planning process.

<table>
<thead>
<tr>
<th>Month / Activity</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>January / February</td>
<td>End of year PDG review, Issue new blueprint</td>
</tr>
<tr>
<td>February</td>
<td>State of Co./Blueprint meeting Write individual PDG goals</td>
</tr>
<tr>
<td>Monthly</td>
<td>Floor meetings</td>
</tr>
<tr>
<td>Quarterly</td>
<td>Rigor meetings, ELT meeting, QBRs</td>
</tr>
<tr>
<td>May</td>
<td>Prepare Mkt. Bus. Strategy</td>
</tr>
<tr>
<td>October / November</td>
<td>Prepare Blueprint initiatives</td>
</tr>
</tbody>
</table>

Table 2.1.1 - Planning Calendar of Events

We have evaluated and improved our planning processes several times over the last decade, making significant improvements in reducing cycle time, creating measurable and realistic goals and objectives, deploying plans throughout all levels of the company, and integrating planning with the day-to-day management of the business.

(2) The longer-term plans are designed to address changes in technologies, markets, products, customer preferences, competition and regulatory factors. Potential capability gaps are identified during these planning processes and are addressed through the formation of cross-functional teams, who further diagnose the causes of the gaps and develop specific strategies and action plans.

Feedback loops during each of the four phases act to prevent blind spots in our strategic plan. The SWOT and Situation Assessment are reviewed by a number of internal and external experts for factors such as accuracy and completeness. Goals and plans are reviewed and agreed upon by a broad variety of individuals in NPPC to make sure we have the resources, technology, and competencies to achieve the plans. This feedback, analysis and improvement cycle occurs very quickly, and we have a culture that encourages honest feedback.

Another key element of the process is the deployment of our Blueprint throughout the entire company, and the integration of our strategic plan as the foundation of our performance management system. Table 2.1.2 depicts the requirements of our performance management system.
and the systems or programs we have in place to address these requirements. This systematic process is cascaded from the executive leadership team to all employees through a number of tools and processes such as cross-functional Pillar teams, functional and departmental plans, individual Progress and Development Guides, and Pillar Awards.

To ensure long-term sustainability and business success, our strategic plan incorporates our core competencies by translating them into specific strategies, initiatives, projects, and action plans. Furthermore, to ensure that we have the appropriate resources to accomplish the goals in our plan, the budgeting process and HR planning process are both completely integrated with strategic planning. Our ability to manage risk and achieve sustainable growth has enabled us to allocate appropriate resources to prosper through difficult and uncertain times.

### Table 2.1.2 - Purina Performance Management System

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Purina Strategies / Programs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide employees with clear expectations</td>
<td>Blueprint, Job Descriptions, Values, Departmental Plans, Metrics/Targets, OCQ, Project Plans, and Individual Performance Plans</td>
</tr>
<tr>
<td>Provide regular feedback on performance</td>
<td>On-line performance data, Rigor Sessions, Floor Meetings, Staff Meetings, OCQ Feedback, Customer Listening, Supervisor feedback, Performance Reviews, and Team Meetings</td>
</tr>
<tr>
<td>Provide rewards/recognition for performance</td>
<td>Pillars of Excellence Awards, Promotions/Transfers, Succession Plans, Compensation/Bonuses, Five Tails Awards, Newsletter/Web site recognition, and Executive notes/visits</td>
</tr>
</tbody>
</table>

### Table 2.2.1 - Example of Goal & Action Plans

#### 2.2 Strategy Deployment: How do you deploy your strategy?

#### a. Action Plan Development & Deployment

(1) Our strategic planning process yields both short- and longer-term action plans. A longer-term action plan that is part of the Sustainability objective is to ensure the long-term sustainability of NPPC’s product ingredients. Table 2.2.1 below depicts an example of the action plans. The Action Plan listed in the table below has more detailed project plans describing how it is deployed and measured. This type of detailed action plan and subsidiary project plans exist for all Blueprint Pillars.

<table>
<thead>
<tr>
<th>Pillar</th>
<th>Renovation &amp; Innovation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal</td>
<td>Continually improve existing products (renovation) and introduce new items (innovation)</td>
</tr>
<tr>
<td>Action Plans</td>
<td>Commercialize planned R&amp;I in the future.</td>
</tr>
</tbody>
</table>

(2) Once the Blueprint is finalized and goals are identified, the department functions develop plans for how we will accomplish the Blueprint goals. We monitor key performance indicators or metrics to ensure that the outcomes of action plans can be sustained. When action plans are not producing desired results, we complete an analysis and identify the cause, implement alternative actions, and continue to monitor performance. The OCQ process is one of the feedback loops for us to assess how well plans have been deployed and how well action plans are producing the desired results.

We develop specific objectives for key measures of supplier and customer performance that are communicated to them on a regular basis and performance against these targets is reviewed on a regular basis.

(3) Linkage of the planning and budgeting processes ensures that appropriate resources are assigned for achievement of goals and strategies. Resources are sometimes taken from one strategy or initiative to redistribute elsewhere. Budgeting and planning are not just annual events. We have multiple mechanisms for reviewing and adjusting our plans and budgeting allocations on a regular basis to keep our resources appropriately aligned with our goals and priorities.

(4) Each of the Pillars has a dedicated cross-functional team responsible for both tracking performance against metrics/targets and for monitoring progress on initiatives/action plans. When there are changes to either goals or initiatives, these teams communicate the changes to the personnel impacted and adjust project plans and individual (PDG) goals where necessary. Changes to overall strategies and goals are also communicated to the entire workforce during monthly Floor Meetings and departmental/team meetings.

### b. Strategic Objectives

(1) Our most important strategic objectives and goals are documented in our Blueprint. The timetable for achieving these goals and objectives varies depending on the strategies and actions associated with each one. The Blueprint is further supported with detailed project plans for each of the major Pillars, which include milestones and specifications for outputs/deliverables.

The Blueprint was developed to address our strategic challenges, while leveraging our current core competencies and strategic advantages. Additional information on the strategies that will be deployed for achieving the Blueprint goals can be found in Table P.2.2.

(2) The Market Business Strategy and the Blueprint include goals and strategies for addressing our challenges and advantages, as well as our need for innovation. The Blueprint Pillars are also designed to show a balanced approach to address the needs of our key stakeholders, including Nestlé shareholders, customers, community, and NPPC employees and partners. Our human resource strategies address the need for innovation/creativity, and continuation of the NPPC culture.
(5) One of the Blueprint Pillars is “People.” Within this category, we develop specific goals that define the HR-related requirements linked to the achievement of the other goals in the Blueprint. Some People goals are very clearly linked to specific pillars. Other goals cut across many areas of performance such as “Maintain and improve the NPPC culture through ongoing associate feedback.” Another People goal that links to all other Pillars addresses recruiting and selection of the best people. NPPC has made major changes recently in its recruitment strategy to find and hire people with the values we want and the creative talents needed for the future.

In developing our strategies and action plans, we consider workforce capability and capacity factors as well as any negative impacts a strategy might have on employee satisfaction or our culture.

(6) We have defined three levels of metrics for tracking performance on Blueprint goals: (1) outcome metrics like market share, margin, and growth; (2) output metrics like new products introduced, marketing campaigns launched, or new customers acquired; and (3) more detailed subsidiary process metrics and project plans such as milestones completed on projects, cycle time, compliance with standards/policies, and staying within budget. We ensure there is balance in these metrics by linking all measures back to the strategic plans, which are balanced to address all of our key stakeholders. Deployment is achieved by cascading goals, plans, metrics and initiatives to all levels of associates in the company.

b. Performance Projection

In order to set long term projections and trends, we use extensive industry data, competitive analysis, consumer trends, economic factors, and statistical analyses of our own performance data.

3. CUSTOMER FOCUS

3.1 Customer Engagement - How do you engage customers to serve their needs and build relationships?

a. Product Offers and Customer Support

(1) We have found that in the pet category, innovation fuels excitement, additional trips to the store, purchase frequency and overall category growth.

NPPC employs multiple approaches for creating innovative new products:

• Focus Groups
• In-home trials
• Ethnographic studies
• Analysis of market segment opportunities (consumer & shopper)
• Identification of gaps in competitor products

• Analysis of consumer trends in non-pet food buying behavior
• Research on ingredients that impact pet health and longevity
• Feedback from consumers and retail customers

Some new products are designed to strengthen the relationship between NPPC and existing consumers, and other new products attract new consumers by offering them something that may not have existed before.

To address the specific needs of one particular consumer segment, the Beneful brand was created. Two recent product innovations within the Beneful brand are Beneful Prepared Meals and Beneful IncrediBites. Other recent NPPC firsts are the introduction of Purina Pro Plan Shredded Blends and Chef Michaels, which use the innovative blend of hard and soft kibbles.

Consumer needs and trends change rapidly, so we make it a point to do continual research with customers, consumers, and pets to ensure that our products link to their latest requirements and priorities. One of our approaches is called Quality Function Deployment, which identifies drivers of customer buying behavior and helps us design those factors into new and improved products/services. Our systematic approach has been deployed to all brands and product categories. Some additional innovations include:

• Yesterday’s News Cat Litter
• Party Mix Natural Sensations Cat Treats
• Alpo Prime Slices and Chop House
• Fortiflora Probiotics for Dogs and Cats
• Pro Plan Premium Foods
• Prescription Pet Food (Veterinary Diets)
• Breeze Cat Litter System

The NPPC approach to creating and introducing new products has been evaluated and improved multiple times over the last 10 years. We have broadened our research to examine more variables, incorporated new data-gathering techniques, and shortened the cycle time from idea to launch. Product design and development is integrated into our strategic planning process.

(2) NPPC has a comprehensive approach for customers to seek assistance regarding our products or anything else to do with their pet. We have different systems and processes for the consumer versus the retail customer. Most consumers get information from our web sites, such as Purina.com, PetCentric.com, and the individual brand web sites (Forbes magazine recently recognized PetCentric.com as one of the top 10 mobile applications of 2009). There are many links to popular articles on dog and cat ownership, addressing the most common issues and questions of new pet owners. We also have links for both dogs and cats at the three stages of their lives: Puppy/Kitten, Adult, and Senior.
Consumers have access to veterinarians and animal behavior specialists who can answer specific questions about nutrition, health, and pet behavior.

Consumers who prefer speaking with a live person can call our 800 number 12 hours a day to get general questions answered about food or other pet issues, and can confer with one of our veterinarians via a toll-free number. We also provide information to consumers via packaging and related literature found in retail stores. All pet and consumer segments are supported with both common and unique information sources.

Our approach to supporting our retail customers is different in nature than how we support our consumers. The value proposition we offer to the retail customer is strong brands and products that draw consumers into their stores and expertise in pet consumer behavior, pet shopper behavior, logistics, and marketing that enable us to help them improve their business in the pet category. We have sales offices in the same cities as several of our major customers. Mutually productive contact with customers directly correlates to their satisfaction levels, and having dedicated customer teams allows NPPC personnel to learn more about retail customers’ needs on an ongoing basis.

Customer account teams are cross-functional so that each function in the customer organization has a counterpart in NPPC who understands their function and specific needs. Purina teams meet regularly with each retail account to review performance and discuss their needs. Teams that are co-located with major customers are involved in many customer meetings and planning sessions, and are viewed as a key partner, not just a vendor.

Our support services for retailers such as veterinarians and independent pet stores are deployed via our distributors. Distributors are trained by NPPC to help with merchandising, aisle design, and other approaches to help them improve sales of pet products.

Our aggressive goals for innovation help us ensure that we continuously improve our approaches for designing and introducing new products and keep them current with business needs and directions. We benefit by being part of Nestlé, which has a significant consumer research and product development organization. The Nestlé Product Technology Center does basic research on nutrition, food science, and consumer behavior that serves as an input to many of the initiatives and new/improved products launched by NPPC.

b. Building a Customer Culture

1. NPPC has a multi-faceted approach to building and maintaining a customer-focused culture that includes hiring the right people, putting them in the right jobs, providing the right training, setting clear goals and expectations, providing ongoing feedback, and rewarding exceptional performance. One of the most important factors for creating a customer-focused culture is picking the right people for the right job. We use behavioral interviewing to identify job candidates with the NPPC values (Five Tall). Additionally, without a passion for pets people are unlikely to feel like they fit at NPPC, and may feel uncomfortable with all the pets in offices and other work places. We also select people who are performance-driven with an understanding that taking good care of customers drives all of our measures of success.

New and existing employees receive training on customer relationship management. This training is not just for customer-facing roles, but for all levels and types of employees including senior leaders.

Along with our selection systems, another important aspect of maintaining the NPPC culture of customer focus is our focus on measuring and continually improving the relationships we have with all three types of our customers. We collect many different types of data and use the metrics to evaluate the success of our improvement efforts. Because our strategic plan is communicated and deployed throughout the organization, we have a systematic way of driving a focus on customers from the top down throughout all levels of the organization.

Finally, our organization structure and work processes are designed to facilitate a focus on the customer. Cross-functional account teams dedicated to, and co-located with, our retail customers help to ensure a customer-focus. Two of the most prestigious awards for employees are customer-focused awards: the Pillar Awards for Product Availability (retail customer) and Consumer Communication (consumer).

The NPPC culture and focus on the customer has been deployed throughout all of our locations and types of facilities, and is part of the common value system demonstrated in the words and behavior of our employees. NPPC’s approach for creating and maintaining a customer-focused culture has gone through many cycles of improvement over the last several years.

2. NPPC has done extensive market research to segment consumers into different types of pet owners and pet food shoppers.

3. We employ a data-based approach for evaluating and improving our processes for creating a customer-focused culture. We collect data on multiple measures of customer satisfaction and engagement. For consumers, we can track brand loyalty, purchase of new products, brand image, and softer measures like satisfaction. For retail customers, we collect a great deal of data informally through our close proximity and relationships with key customer personnel and formally through other mechanisms such as customer surveys and dedicated meetings. Based on this data, we use multiple methods to make improvements (e.g., accelerated organizational performance projects, customer excellence.
process, workout sessions). Based on their feedback, we have learned that our retail customers prefer infrequent formal satisfaction surveys. For example, some customers could have thousands of suppliers and cannot be expected to fill out thousands of surveys multiple times every year. Because of this, we have adopted an annual customer satisfaction survey process. We have adapted and changed our approach to building relationships with each account based on their individual feedback.

3.2 Voice of the Customer: How do you obtain and use information from your customers?

a. Customer Listening

(1) We employ a wide variety of approaches to listen to consumers and customers to determine their needs and priorities. Table 3.2.1 depicts the various ongoing techniques used and their purpose. Obtaining data from customers is less formal because we have daily contact with many of them. However, we also employ the listening/learning approaches shown in Table 3.2.1. We also evaluate consumer trends and obtain data from veterinarians, breeders, and key influencers on a regular basis.

(2) We collect a wide variety of data on current, former, and potential consumers using the following methods: focus groups, in home studies, one-on-one interviews, surveys, web sites, panel data, and feedback from influencers (breeders, veterinarians, sporting enthusiasts, etc.). NPPC has a presence at most major pet events/shows where we get an opportunity to get detailed feedback from pet owners who may or may not buy our products.

It is an extraordinarily rare occurrence to lose a customer. We do not need to follow-up with lost accounts because whenever this has occurred it has been a mutual decision, and we have detailed knowledge of the reasons for the end of the relationship. It is virtually impossible for us to measure the loss of a specific consumer because we usually do not get individual consumer purchasing data.

(3) Consumers are provided numerous methods to access the organization including phone and internet. Each product has a web address and toll-free number for consumers to contact Nestlé Purina PetCare. Sales process or customer-related issues are forwarded to the sales department for resolution. We periodically follow up on the resolution of consumer complaints/inquiries in order to determine satisfaction with the complaint/inquiry resolution and to determine repurchase likelihood.

Retail customers have account teams dedicated to meeting their needs and priorities (i.e., order management, product supply, sales, and transportation). When complaints/inquiries arise, they are able to contact the account team who can then coordinate the resolution of the complaint/inquiry.

<table>
<thead>
<tr>
<th>Customer Listening Method</th>
<th>Purpose</th>
</tr>
</thead>
<tbody>
<tr>
<td>Millward Brown Surveys</td>
<td>Determine brand awareness/image</td>
</tr>
<tr>
<td>Nielsen Data</td>
<td>Monitor consumer product usage</td>
</tr>
<tr>
<td>Panel Data</td>
<td>Monitor consumer behavior</td>
</tr>
<tr>
<td>Advertising score</td>
<td>Measure TV ad effectiveness</td>
</tr>
<tr>
<td>Consumer complaints/feedback</td>
<td>Obtain consumer feedback</td>
</tr>
<tr>
<td>Focus groups</td>
<td>Get detailed feedback on products</td>
</tr>
<tr>
<td>New product testing</td>
<td>Evaluate extended usage/feedback</td>
</tr>
</tbody>
</table>

Table 3.2.1 - Customer Listening Methods

An example of an improvement taken in response to consumer/customer complaints is our packaging. Based on complaints from customers and consumers, we learned that damage to large bags was negatively affecting consumer and customer satisfaction and loyalty. We therefore developed and introduced a new packaging material, which is highly resistant to tears and breakage. This has dramatically decreased complaints about damage to packaging.

b. Determination of Customer Satisfaction & Engagement

(1) NPPC uses a wide variety of methods and metrics for measuring satisfaction with all three of our customer groups. Table 3.2.2 lists some of the major measures of satisfaction.

Of the pet measures, both nutrition and palatability are extremely important measures. For retail customers, our Monitor Customer Satisfaction Index (MCSI) is our most critical measure. This survey measures key drivers of customer satisfaction.

(2,3) The Performance Monitor survey asks retail customers to rate our performance against other pet food companies.

We have a number of measures of retail customer dissatisfaction such as damaged product, returned product, late deliveries, short orders, order errors, and invoice errors. Our measure of customer dissatisfaction for pets is that they prefer a competitor’s product over ours. For consumer dissatisfaction we use returns and complaints. On a limited basis, we are also able to gather data on consumers who may have tried one of our products and then not purchased it again. However, as previously mentioned, we do not usually have access to this type of consumer purchase data. Retail customer
dissatisfaction is gauged via feedback on a daily basis in meetings, phone calls, and e-mails. Their dissatisfaction may also be reflected by their decisions to reduce shelf space, purchase more of a competitor’s product, or refuse to participate in joint planning and improvement efforts.

<table>
<thead>
<tr>
<th>Measures</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pet</td>
<td>Nutritional efficacy: Short-term and long-term tests</td>
</tr>
<tr>
<td></td>
<td>Palatability: Taste tests</td>
</tr>
<tr>
<td>Consumer</td>
<td>Product digestibility: Stool quality test</td>
</tr>
<tr>
<td></td>
<td>Complaints: Number and severity tracked via phone, internet, and mail</td>
</tr>
<tr>
<td></td>
<td>American Customer Satisfaction Index (ACSI): Satisfaction survey conducted by University of Michigan</td>
</tr>
<tr>
<td></td>
<td>Quality Function Deployment (QFD): Perceptions of product attributes</td>
</tr>
<tr>
<td>Customer</td>
<td>Performance Monitor: Industry-wide survey</td>
</tr>
<tr>
<td></td>
<td>Monitor-Customer Satisfaction Index (MCSI): NPPC’s customer satisfaction survey</td>
</tr>
<tr>
<td></td>
<td>Customer Index: New metric that assesses the relationship between Purina and the customer</td>
</tr>
<tr>
<td></td>
<td>Informal daily interaction with customer: Daily interaction</td>
</tr>
<tr>
<td></td>
<td>Case-fill rate: Measure of order accuracy</td>
</tr>
<tr>
<td></td>
<td>Promotion effectiveness: Sales and return on investment for promotional campaigns</td>
</tr>
<tr>
<td></td>
<td>New product acceptance: Acceptance of new items onto store shelf</td>
</tr>
</tbody>
</table>

Table 3.2.2 - Customer Satisfaction Measurement Methods

c. Analysis and Use of Customer Data

(1,2) We have a variety of techniques to analyze customer data and drive improvements, such as statistical linkage between perceptual data and business measures, modeling of product attributes and their relationship with satisfaction and loyalty, and SPC charting of key data.

Using these techniques helps NPPC employ a systematic approach to analyzing trends among consumers and retailers. We use these data as inputs to the product development process, as well as for improving our own processes. A prime example is non-clay cat litter that is made and transported with much less energy than traditional litter. The energy usage for traditional clay litter is very high compared with dog or cat food because of its weight and the energy used for drying. Several trends and facts led NPPC in the development of a number of different litter products that are based on alternative materials and manufacturing methods.

NPPC has been one of the pioneers in pet food nutrition as well. We make use of data on pet as well as human nutrition.

Once we have identified a trend, we look for opportunities to be an innovator. One of the Pillars is Innovate/Renovate. By widely deploying this strategy, all employees look for opportunities to improve our products and services to meet the ever-changing needs of customers, consumers, and pets. We have a systematic process for analyzing and prioritizing opportunities and selecting those for investment that will have the most potential for improving some aspect of overall NPPC performance.

NPPC keeps on the forefront of the latest trends by researching consumer priorities and reviewing scientific data in fields outside of pet food. One trend that is specific to pet food is the humanization of pets. In other words, dog and cat owners treat their pets like members of the family and want them to have the same pleasures and comforts as other family members. This has led to the development of new pet food products that look and smell similar to human food. We also studied trends in the restaurant and packaged food business and found that people like ordering appetizers, or preparing them at home. Appetizers are fun, creative, and offer small portions, which led us to develop Fancy Feast Appetizers for cats.

(3) There are many examples of how NPPC has used customer and market intelligence to improve company performance and become more customer-focused.

Identifying the right segment of consumers allows us to accurately predict the products they will buy and to target our marketing resources accordingly.

(4) NPPC has made some significant changes in our approaches to market research, new product development, and branding/marketing of our products. We used to segment customers by whether they were dog or cat owners and by which tier of our product they purchased. In other words, customers were segmented according to our existing product portfolio. We have changed the way we segment and target customers. We now design products using a variety of systematic and innovative approaches.

Another example of how knowledge of consumers has changed our relationship with the retail customer is that retailers have learned that our consumers spend more than average consumers on items other than pet food in their store.

4. Measurement, Analysis, and Knowledge Management

4.1 Measurement, Analysis, and Improvement of Organizational Performance

a. Performance Measurement

(1) We use a variety of methods and sources to collect, align and integrate data and information for tracking performance in the following five areas: product, customer-focused, financial and marketplace, people and operational. We also have a balanced set of metrics used to assess our strategies for achieving these overall financial goals. Table 4.1.1 presents a summary of these
metrics. The frequency with which we track the metrics varies depending on the metric, availability of data, and volatility of performance. We use these data to make key management decisions, allocate resources, diagnose problems, and make the most of opportunities.

Table 4.1.1 - Blueprint Areas and Key Metrics

<table>
<thead>
<tr>
<th>Blueprint Area</th>
<th>Key Metrics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Communication</td>
<td>Brand growth; market share; consumer satisfaction; NPPC image</td>
</tr>
<tr>
<td>Renovation &amp; Innovation</td>
<td>Sales from R&amp;I</td>
</tr>
<tr>
<td>Product Availability</td>
<td>Customer satisfaction; promotion effectiveness; on-time delivery; case-fill rate</td>
</tr>
<tr>
<td>Low Cost - Highly Efficient Operations</td>
<td>Product quality; efficiency; productivity; energy &amp; water usage; total plant operating costs; product yield</td>
</tr>
<tr>
<td>People</td>
<td>Safety; health; turnover/retention; new hire quality employee satisfaction &amp; engagement</td>
</tr>
</tbody>
</table>

(2) We use a variety of methods for collecting comparative data on performance metrics. We are able to gather a great deal of comparative data from other Nestlé businesses. We also do benchmarking of best practices of Baldrige winners and other well-run companies and make use of industry experts. Based on this type of information, we identified a gap within the small dog segment and subsequently developed relevant new products (e.g., Beneful IncrediBites, Chef Michael wet and dry).

(3) We keep our measurement system current by evaluating and improving our metrics at least once a year as part of our annual planning process. New objectives often require new metrics. Within existing metrics, we also look for ways to improve data integrity and predictability of leading indicators. Tracking many metrics on a daily basis, and incorporating a number of external metrics on our scorecard is the best way we are able to ensure that our measurement system is sensitive to rapid or unexpected changes. For example, we track variables like brand equity, daily sales information, and product and service quality metrics. By having daily and weekly metrics and by reviewing these data in Daily Operating Reviews and Weekly Operating Reviews, we are able to detect relevant changes or declines in performance. This allows us to quickly analyze the causes by drilling into additional detail or diagnostics and developing action plans to drive improvement.

b. Performance Analysis and Review

Performance is reviewed daily, weekly, monthly, quarterly, and annually at NPPC. We have a number of different meetings designed to review different metrics that are tracked with different frequencies. For example, our Daily and Weekly Operating Reviews mostly occur in our manufacturing facilities. There, we review data on safety, quality, production, and waste/scrap. In our monthly sales reviews, we look at performance on a wide variety of operational, financial, and market metrics. Quarterly, Pillar champions participate in reviews of our performance against the objectives in the Blueprint. In all cases, these meetings involve reviewing levels and trends in data, analyzing the causes of both good and poor performance, and changing action plans and strategies when needed to improve or maintain performance. Employees have been taught a number of different analysis models and techniques such as DMAIC (Six Sigma), SPC, comparative cause analysis, and root cause analysis. By tracking some metrics daily, we are able to quickly detect if our action plans are having the desired impact and make further adjustments when necessary. We also supplement the statistical data with softer data gathered via observation and questioning. For example, we get daily data from our largest customers because we are in contact with them daily. This way we can detect problems or issues early rather than waiting for a report to show a declining trend in some measure of customer satisfaction.

c. Performance Improvement

We make use of “Kaizen” and other continuous improvement processes. Our Accelerating Organizational Performance (AOP) teams take a multi-year, strategic focus, while our Workout Sessions are focused on nearer-term needs. Furthermore, depending on the problem or opportunity, we have other methods for developing strategies for improvement. A product issue or an opportunity to create a new product that fills a void in our product portfolio is addressed by our Innovation/Renovation processes. The responsibility for developing new products, processes, or other innovations is shared among Brand Marketing and the Innovation/Renovation organization that works with other groups in NPPC and Nestlé. These organizations evaluate and test ideas and new products/processes. The R&D Network also has its own goals, Blueprint, metrics and strategies for keeping the company at the forefront of pet care innovation. In some cases, the action needed to solve a problem is to change people or processes. Process changes and improvements are typically evaluated first by a team dedicated to this analysis, and then pilot tested to see if the changes produce positive results. Process changes or improvements are graded in a three-level system:

1. Understanding – requires further research to evaluate effectiveness
2. Best practice – documented effectiveness and presented in best practice database
3. Tactical guidelines – proven process changes or improvements that become mandatory or integrated into policies/procedures

When appropriate, improvements and innovations are communicated to partners (e.g., distributors, suppliers) such as those that provide our raw materials or help deliver our products to the retail customer. These changes/improvements are deployed using a variety
of methods appropriate for the specific circumstance. For example, as a result of increased standards with supplier quality, we improved the way we inspect, monitor, and track raw materials (i.e., end-to-end traceability). Another innovation is our newly designed pet departments based upon our research of shopper behaviors and styles. These improvements and innovations are communicated to retail customers via meetings, presentations, and tours of our Learning Center.

4.2 Management of Information, Knowledge, and Information Technology

a. Data, Information, and Knowledge Management

(1) NPPC uses a multi-faceted approach to ensuring the integrity, accuracy, timeliness, and security of our performance data. One of our strategies is to make use of external data when possible on variables such as market share, competitor performance, customer satisfaction, and employee satisfaction. By engaging with respected suppliers, such as Nielsen, to gather and report these types of data we make sure that the data are accurate and not manipulated to inflate our performance. In general, we have a very open approach to communicating our performance to all levels of employees and partners. There are some data, however, that are considered crucial to be kept confidential, and only key individuals are allowed access to this information.

Every NPPC job function requires access to different levels of data and information. For example, our plants are highly automated and therefore require employees to continuously interact with process control data. Engineers at headquarters can also interact with the process control data remotely. Automated data collection on key process variables using calibrated equipment ensures data accuracy, integrity, and timeliness. Operators review live performance data and can make adjustments to manufacturing equipment as necessary to ensure all quality and production goals are met.

(2) We make use of a variety of media and methods to communicate performance data to our employees and partners over the last 10 years. For example, a few years ago we began having Floor Meetings on a monthly basis to keep employees at all levels informed about company performance and to allow them the opportunity to ask questions about the company and its future plans. For non-headquarters personnel (e.g., sales), the VP of Sales sends a monthly voice mail summarizing key business performance results and highlights of key organization and people initiatives. We have also improved the frequency and thoroughness of our communication of key information to our partners, suppliers, and retail customers. An example of a recent improvement with raw material suppliers is our frequency and quality of feedback through our supplier scorecard process.

Integrated Category Business Planning is a recently developed capability to collaborate with retail customers in a way that provides improved access to relevant data and information. We work with customers to help identify their goals and priorities for growing and improving the performance of the pet care category in their store. We then work together to develop strategies that will help the stores sell more pet care products. Retailers have indicated that this is an important requirement for vendors.

(3) NPPC has a number of different processes and databases for documenting knowledge and transferring that knowledge to those who can benefit from it. Our succession planning process is a very successful approach for transferring lessons learned and knowledge from person to person. Part of the process is the mentoring approach used by senior leaders to pass on skills and knowledge. This highly personalized mentoring and coaching process allows us to pass on subtle lessons and management skills. Another method of transferring knowledge and information is our previously discussed Organizational Capabilities Review, which is a succession planning process deployed to all non-production employees. We also have a number of different databases used to store and extract information on best practices, technical knowledge, customer information, and a wide variety of topics. Knowledge databases include:

- **Purinapedia** – accessible by any NPPC associate and contains a great deal of general information on products, customers, processes, history, and technologies.
- **Purina Place** – a database of information on best practices, process improvement initiatives, experiments and their results, and general information that may be useful for individuals in sales and marketing jobs.
- **Go Fetch** – a more general knowledge internal database, allowing employees to enter key words and search within a wide variety of Nestlé and NPPC databases on thousands of topics.
• **NPPC Corporate Library** – Library located at headquarters, which houses a collection of books and periodicals and is staffed by trained research professionals, who will conduct literature searches and/or other information gathering.

A defining characteristic of all of these knowledge management databases is that the content is carefully screened by teams of subject matter experts. For example, we make sure that several experiments have been conducted and that results are documented before listing something in the database as a “best practice”. We continue to collect user feedback on these knowledge management systems to improve them.

In cases where an obvious best practice is identified, we will rapidly share and implement the practice(s). For example, an employee at one of our plants created a device that significantly reduced the amount of water required for a specific production process. This best practice was quickly documented, shared and deployed to all relevant plants helping us achieve our goals of Low-Cost Highly Efficient Operations and Sustainability.

Documentation of best practices and key lessons learned is one of the inputs to our strategic planning process. These data are reviewed and considered as part of the SWOT analysis.

b. **Management of Information Resources and Technology**

1. We ensure that our systems are reliable, secure and user-friendly by collecting data on these factors on a regular basis. A great deal of hardware and software used by Headquarters employees and those in the field comes from Nestlé. Nestlé has a centralized approach to managing information technology so that all of its businesses have common systems for communicating with each other. When NPPC became part of Nestlé, we had to make some modifications to existing hardware and software so that they met Nestlé standards. The Information Technology department in NPPC has had its own scorecard for many years that includes metrics on user satisfaction, customer service performance, and hard measures of system uptime, response time, and performance of the call center. We ensure reliability and security through testing and the use of controlled access for data entry and viewing of information.

2. We have back-up plans in place in the event of a power outage or other technology-related problem. Data is backed up on a regular basis, including mandatory back-up systems for individual PCs. Facilities have back-up generators that will allow the company to continue functioning in the event of an emergency. Our facilities have received recognition for how well prepared we are for various types of emergencies, including those that may impact our information technology.

Furthermore, as a continuous process manufacturer, our production is highly automated. Therefore, we have similar back-up requirements and energy systems in all manufacturing facilities.

3. Technology is evaluated on its ability to improve productivity and customer satisfaction. Nestlé has a dedicated team responsible for ensuring that NPPC and other businesses have access to the needed technology. The corporate IT group, as well as the IT department in NPPC, frequently polls internal users/customers to identify their needs and priorities and makes every attempt to provide people with the IT tools they need to do their jobs well. We have a project review board made up of leaders from various parts of the business to advise on IT priorities and allocation of resources.

The technology we employ in our manufacturing operations is an area of significant focus. Some of our technology was internally designed, and is proprietary. We have made several cycles of improvement in our approach to applying technology to our manufacturing processes. We currently utilize a centralized approach which has allowed us to provide better service to the plants, have greater consistency in our products, and implement best practices in less time.

5. **Workforce Focus**

5.1 **Workforce Engagement - How do you engage your workforce to achieve organizational and personal success?**

**a. Workforce Enrichment**

1. We use a variety of methods to determine the key factors affecting workforce engagement and satisfaction (e.g., surveys, focus groups, interviews, published research). Many of the key factors that affect our workforce engagement are the same things that affect anyone’s workforce engagement, such as expressed satisfaction with the work itself, co-workers, supervision, pay and benefits, opportunity or advancement, and security. Additionally, we have found that there are certain functional and generational factors that impact workforce engagement. For example, with respect to Generation Y workers, we found that autonomy, culture, career development, work/life balance, focus on community, and focus on environment were key engagement factors.

2. NPPC has applied a multi-faceted approach in fostering an organizational culture characterized by open communication, high performance work, and an engaged workforce. Table 5.1.1 includes the key elements of our workforce performance management system that support high-performance work and workforce engagement. Each component is measured in detail and tracked on a regular basis. Measures, feedback and reward/compensation are set up to drive a balance of customer satisfaction, employee satisfaction, and financial results.
Table 5.1.1 - Performance Management System

For the past several years, we have made many improvements to our approach to building and improving the NPPC culture and linking it to the business via our performance management system. For example, we recently updated William Danforth’s original Four Tall’s to serve as a current values system.

b. Workforce and Leader Development

(1,2) We have a three-tiered approach to our learning and development needs analysis: corporate-wide, function-specific, and individual. At the corporate-wide level, we do a broad and continuous training needs analysis based on our short and long term strategies and the current skills and core competencies in order to identify any potential gaps. Knowledge and skill gaps then become the foundation from which our training and development plans are prioritized.

In addition to the corporate-wide training needs analysis, each department completes their own analysis to determine key priorities. A great deal of autonomy is given to each department to determine the most appropriate and relevant learning and development systems that fit their unique needs and requirements.

At the individual level within the performance management process, employees and their supervisor agree on a learning and development plan for each person. To accommodate the diversity of individual learning and development needs, NPPC offers a variety of options for training such as tuition assistance for University courses, a Universal Learning Curriculum, an on-site full service library, Toastmasters, book clubs, attendance at professional conferences, mentoring and coaching, special project and job assignment, lateral transfers, international assignments, brown bag lunch seminars, e-learning courses, multi-source feedback tools, and the Women’s Leadership Forum.

Furthermore, all employees with budget authority are provided with ethics and ethical business practice training. Additionally, employees receive an annual legal compliance survey, which helps reinforce rules and guidelines while also correcting any necessary behavior before it becomes a significant issue.

As previously mentioned, we have a number of methods to capture knowledge from departing and retiring workers. To reiterate, we have a number of different knowledge databases and a comprehensive succession planning and mentoring program for passing on knowledge and skills.

To reinforce the use of knowledge and skills acquired in training on the job, we use the following techniques: follow up coaching, follow up training surveys of employee and manager, job assignments that make use of newly acquired skills, behavioral assessments, evaluation of performance measures, and linking behaviors to output and outcome metrics (e.g., safety, innovation, sales). In addition, we have implemented knowledge-based pay in relevant functions to reward people for acquiring new skills.

(3) We have a four-phased approach for evaluating the effectiveness and efficiency of our learning and development systems: reaction, learning, behavior change, and results. While not all courses are evaluated on all four levels, the level of effort put into evaluation is based upon variables such as linkage of the course to the strategic goal/objective, number of people attending the course, cost of the training, linkage to safety or regulatory compliance and purpose of the course. For example, some courses are not designed to change behavior or performance, but only to provide knowledge and skills. For these courses, we would apply the level one and two evaluations. For other courses, such as leadership training for the sales function, we have conducted extensive evaluation that includes all four levels.

(4) The Organizational Capabilities Review (OCR) is used to manage the career progression for the entire workforce. OCR’s are developed by each employee in conjunction with his/her manager to address career goals, aspirations, limitations (i.e., unwilling to accept international assignment), etc. Senior management reviews each employee’s career path plan for links with strategic company and human resource plan.

c. Assessment of Workforce Engagement

(1) We have a number of formal and informal measures of employee engagement and satisfaction (Table 5.1.2). We combine external measures such as the Hay Group and Best Place to Work surveys with a comprehensive set of internal measures, thus ensuring access to comparative data and improved data integrity. Workforce engagement and satisfaction is assessed via specific items in the Organizational Capabilities Questionnaire (OCQ). As mentioned previously, the OCQ has an action plan and follow-up component that NPPC uses to manage performance. Each department uses a customized OCQ in order to measure the most relevant engagement factors for the department. The approach and deployment of the OCQ is the result of numerous improvement cycles over the past several years.

(2) We conduct studies to verify links between OCQ and business results. We have found that OCQ results are consistently correlated with relevant business results.
### Table 5.1.2 - Measures of Employee Engagement and Satisfaction

<table>
<thead>
<tr>
<th>Method</th>
<th>Frequency</th>
<th>Target Audience</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surveys</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OCQ</td>
<td>Annual</td>
<td>All employees</td>
</tr>
<tr>
<td>Hay Group</td>
<td>Annual</td>
<td>All employees</td>
</tr>
<tr>
<td>Best Place to Work</td>
<td>Annual</td>
<td>All employees</td>
</tr>
<tr>
<td>Other Indicators</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retention</td>
<td>Monthly</td>
<td>All employees</td>
</tr>
<tr>
<td>Absenteeism</td>
<td>Daily</td>
<td>Manufacturing facilities</td>
</tr>
<tr>
<td>Grievances</td>
<td>Monthly</td>
<td>All employees</td>
</tr>
<tr>
<td>Safety</td>
<td>Daily</td>
<td>All employees</td>
</tr>
<tr>
<td>Productivity</td>
<td>Monthly</td>
<td>Manufacturing facilities</td>
</tr>
<tr>
<td>Unused vacation time</td>
<td>Monthly</td>
<td>All employees</td>
</tr>
<tr>
<td>Overtime</td>
<td>Weekly</td>
<td>Manufacturing facilities</td>
</tr>
<tr>
<td>Request for Transfer</td>
<td>Monthly</td>
<td>All employees</td>
</tr>
<tr>
<td>Travel</td>
<td>Monthly</td>
<td>Salaried professional employees</td>
</tr>
<tr>
<td>Hours Worked</td>
<td>Weekly</td>
<td>All employees</td>
</tr>
<tr>
<td>Use of employee benefits &amp; services</td>
<td>Monthly</td>
<td>All employees</td>
</tr>
</tbody>
</table>

(e.g., safety, productivity, sales), which shows that we are measuring the relevant variables. We have found that high levels of workforce engagement and satisfaction also strongly correlate with customer satisfaction and financial performance. Workforce engagement findings and objective department results are analyzed to identify key strengths and key opportunities for improvement (e.g., manufacturing, sales). These studies have allowed us to improve our ability to manage performance more systematically and better forecast business results.

### 5.2 Workforce Environment: How do you build an effective and supportive workforce environment?

#### a. Workforce Capability and Capacity

1. A key part of our planning process is to evaluate our workforce capability and capacity to develop appropriate staffing and development plans.

   The Organizational Capabilities Questionnaire is used to assess the workforce capabilities. The survey is designed to measure the key behaviors, processes, and outcomes for each department. We also conduct periodic broad assessments of capability and capacity needs.

   We have a multi-faceted approach to capacity planning to determine the needed workforce size and competencies and skills. Part of this plan is to determine if any head count or competency/skill gaps exist so that HR and department management can close the gaps if appropriate. The six-phase capacity planning process is fully integrated with our strategic planning process.

2. We have adopted a selection approach that helps maximize engagement as well as alignment with the company mission, vision, and values. We recruit widely, directing all recruits to our career site, www.NestléPurinaCareers.com, where they learn about the company, the culture, and the work environment. If they find it appealing, they can then pursue their interest further, thus increasing the probability for person-organization fit. This has resulted in not only a higher percentage of candidates who already embrace our values, but has also increased the diversity of applicants.

We also have employees who are very willing to recommend NPPC as a great place to work, and so employees are sometimes our best recruiters. We have recently put our recruiting web site address on the back of business cards to make it easier for employees to recommend NPPC as a great place to work.

As part of the hiring process, all new employees attend New Associate Orientation, which provides a broad overview of the company and its culture. Also, depending on their role, new employees may also get further department-specific or job-specific training.

3. We have a fairly traditional organizational structure. We have line and staff functions. We do not outsource many support functions or manufacturing and most of our manufacturing facilities are located in the United States. We outsource functions that are not core competencies. Although we have a traditional organizational structure for a consumer product company, our management approach is somewhat non-traditional (e.g., autonomy in decision making, dedicated cross-functional customer teams, matrix R&D between Nestlé and NPPC).

Over the past several years, we have had multiple improvement cycles in our structure and organization. Some recent improvements to our organizational structure include creation of the Nestlé Retail Operations Center, Market Development Organization, and most recently the creation of the Innovation Team. These changes have resulted in improved efficiency, increased customer satisfaction, and greater innovation.

4. We have a variety of methods for preparing our workforce for changing capability and capacity needs. We conduct long-term human resource planning and forecasting to ensure that future workforce capabilities and capacities are aligned with business needs. Ongoing training is one of our primary ways of maintaining relevant capabilities. Additionally, we use our succession planning processes (OCR) to assess our workforce capability and capacity needs. To help ensure continuity of culture and values, we have a strategy of promoting from within.

In addition to the use of training to fulfill capability gaps, we also develop our people through assignment
to special cross-functional project teams to work on key initiatives called Accelerated Organizational Performance and Workout projects. This process targets a certain area, evaluates current capability and capacity needs versus future needs, and then makes recommendations about how to address any gaps. For example, a recent Accelerated Organizational Performance team focused on our innovation needs, which led to the creation of a new Innovation team and a deepened focus on innovation as a key driver of our future performance. Also, about every five years, top managers take a multi-year look at our business environment in order to address any changing capability or capacity needs in a specific area.

Consistent with our core value of integrity (Stand Tall), our philosophy is that we only hire employees with the expectation that they will work for the company for many years. We manage workload peaks by hiring temporary contractors. If the peaks become normal, we will hire them as permanent employees.

To minimize the impact of workforce reductions when Ralston Purina was acquired by Nestlé in 2001, we conducted extensive examinations of synergistic opportunities in the work to be done. Where there was surplus workforce, we communicated early and often about the early retirement package, severance packages, and opportunities for relocation and job change.

b. Workforce Climate

(1) Safety is our number one workforce priority. It is the first metric reviewed on all manufacturing status reports. Thus it is always top of mind with employees and senior leaders. We measure recordable accidents and lost-time accidents as well as a number of other leading indicators. Over the past five years, we have maintained a lost-time accident rate of near zero per million man hours. Our goal is always to have an accident free workplace. Several plants have gone two years without a lost-time accident.

Furthermore, NPPC has a comprehensive array of programs to address workplace environmental factors to ensure and improve workforce health, safety and security. These programs all take a prevention-based approach by including training, communication of standards, measurement/feedback, reward and recognition, drills, and audits. Table 5.2.1 outlines some key programs, metrics, and goals for health, safety and security. Specific goals and measures vary depending on the different types of facilities and work groups.

(2) An important benefit offered to our workforce is a work environment that encourages balance between family/personal life and work. We have a number of policies focused on achieving this work/life balance. For example, in our sales department, we have a policy of no out-of-town meetings on Monday morning or Friday afternoon in order to prevent travel on weekends.

Furthermore, we have a wide variety of approaches for supporting our workforce including the following: adoption assistance, backup child care, bring pets to work, elder care, Employee Assistance Program, Healthworks, on-site library, mother’s lactation lounge at headquarters, multiple options for health insurance, Nestlé infant formula program, numerous product discount programs, on-site day care, on-site services such as cafeteria, company store, fitness center, dog park, fish pond, free parking, a “park-like” setting in downtown area, Solutions for Nursing Mothers program, tuition assistance, Universal Learning Curriculum, flextime, job-sharing and work from home options. We have made a number of changes to our benefits, services and policies over the years to adapt to feedback and changing needs of our workforce.

There are some unique services and benefits offered to our manufacturing workforce. For example, some reward and recognition programs are designed around peer recognition, which we have found to be one of the most powerful forms of positive reinforcement. These include special celebrations/awards (e.g., hats, shirts, jackets) for safety milestones. Plant employees are also eligible for attendance awards and flextime where appropriate. Manufacturing employees also have a unique bonus program focused on safety, quality, productivity, and customer service results.

<table>
<thead>
<tr>
<th>Programs</th>
<th>Measures</th>
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<tbody>
<tr>
<td>Health</td>
<td>Health screening</td>
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<td></td>
<td>Health self-assessment</td>
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<tr>
<td></td>
<td>Program participation</td>
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<tr>
<td></td>
<td>Condition management</td>
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<td></td>
<td>% of employees take PTO</td>
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<tr>
<td></td>
<td>Absenteeism</td>
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<td></td>
<td>EAP data</td>
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<tr>
<td></td>
<td>Disability claims</td>
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<tr>
<td>Safety</td>
<td>Recordable accidents</td>
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<tr>
<td></td>
<td>Lost-time accidents</td>
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<td></td>
<td>Safety Audits</td>
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<td></td>
<td>Near Misses</td>
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<tr>
<td></td>
<td>Behavioral measures</td>
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<td></td>
<td>Self-assessment survey</td>
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<td></td>
<td>Training</td>
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<tr>
<td></td>
<td>Safety drills</td>
</tr>
<tr>
<td>Security</td>
<td>Compliance audits</td>
</tr>
<tr>
<td></td>
<td>Recordable incidents</td>
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<tr>
<td></td>
<td>Security drills</td>
</tr>
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<td></td>
<td>Security training</td>
</tr>
</tbody>
</table>

Table 5.2.1 - Health, Safety, and Security Programs
6. Process Management

6.1 Work Systems

a. Work System Design

(1,2) We design our work systems around our core competencies, which allow us to more easily decide which processes will be managed internally and which ones will be outsourced. For example, our core competency of manufacturing excellence has allowed us to use our own factories to produce more than 99% of our products. We have learned many lessons about what we should do internally versus externally as well as what our core business should be.

NPPC uses a systematic process for both developing new products and designing the work systems needed to produce and deliver those new products. One of the key decisions we make regarding new products and associated processes, is whether to acquire a company that already has a good product and associated processes, share the development and manufacturing with a supplier, or use our internal resources and create our own processes. We use a series of questions and criteria to complete these analyses, considering factors such as risk, costs, cycle time, and our own core competencies and capacity.

NPPC has made a number of changes and improvements over the last several years to integrate innovation and work system design with strategic planning, brand management, R&D, and new product development. Results from new products show steady improvement trends as well.

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b. Key Work Processes

(1) NPPC’s key work processes and associated links to key outcomes are shown in Table 6.1.1. Each of these six processes is at least indirectly linked to all the outcomes. Table 6.1.1 indicates only the most direct linkages.

Under each of these six macro processes we have defined a number of sub-processes. Requirements are defined for each of these, and relevant process metrics are developed and monitored against targets based on output and outcome goals.

(2) Key requirements for the work processes listed in Table 6.1.1 and those sub-processes underneath are determined using a wide variety of data and research. Requirements are factors that we must focus on while completing each process to make sure the desired outputs and outcomes are achieved. Most importantly, we use our customer requirements research discussed in Item 3.2 as a determinant of process requirements.

Learning about how customers want products packaged has also led to changes in the processes used to manufacture food containers and market/display the products for consumers. Requirements are also defined via supplier input. For example, manufacturing equipment has limits and capabilities to control processes. Customers and stakeholders, such as our communities and pets, care about variables like food safety and purity, which leads us to add to our lists of process requirements. We have a variety of approaches for gathering input, ideas, and solutions to problems from our collaborators, partners, and suppliers.

NPPC also has a number of support processes that are critical for achieving customer value and sustained financial success. Table 6.1.2 lists the major support processes and their associated requirements for success.

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### Table 6.1.1 - Key Work Processes, Requirements and Links to Outcomes

<table>
<thead>
<tr>
<th>Key Work Process</th>
<th>Important Process Requirements</th>
<th>Outcome Links*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Determining needs/generating demand</td>
<td>Use of representative samples of customers; low cost; unobtrusive for customers; innovation/creativity; use of trained researchers</td>
<td>CV P/FR OS S</td>
</tr>
<tr>
<td>Developing new/enhanced products</td>
<td>Cycle time; cost use of proper research methodologies; follow all laws and policies; comprehensive testing with pets and consumers; cross-functional teams used; capitalize on important customer trends and needs; ensuring foods appeal to pets and are nutritionally complete</td>
<td>X X X X</td>
</tr>
<tr>
<td>Manufacturing products/delivering service</td>
<td>Controlling raw material quality; adhering to food safety standards; cleaning equipment properly; monitoring key process variables during manufacturing; employees follow all safety precautions; following process guidelines/procedures</td>
<td>X X X</td>
</tr>
<tr>
<td>Distributing/delivering products</td>
<td>Cycle time for order processing; transit time and cost; fuel usage; ensuring adequate supply for all customers; unload product without damage; maintain positive relationships with retail customers</td>
<td>X X X X</td>
</tr>
<tr>
<td>Marketing products/services</td>
<td>Use a wide variety of media and methods; innovation in both market research and marketing strategies; ensuring that marketing message is tied to product features and customer requirements; ROI for marketing campaigns</td>
<td>X X X</td>
</tr>
<tr>
<td>Managing customer relationships</td>
<td>One face to the customer for all Nestlé; provide knowledge that helps customers; ease of contacting NPPC; relationship plans tailored to each account vs. standardized approach; accessibility of NPPC personnel for retailers/distributors; use of proven high performing distributors</td>
<td>X X X</td>
</tr>
</tbody>
</table>

CV = Customer Value; P/FR = Profitability/Financial Return; OS = Organizational Success; S = Sustainability
c. Emergency Readiness

NPPC is regarded as a leader in both St. Louis and within the Nestlé company for emergency preparedness. We have crisis management plans for the following types of emergencies: security, weather/natural disasters, product issues (such as recalls), fire, and financial.

Our system for ensuring that we are prepared and respond quickly in any emergency includes the following components:

- Cross-functional emergency response teams at HQ and all facilities
- Emergency plans and procedures
- Emergency training for all employees
- Frequent drills and audits
- Close relationships with local fire/police
- Root cause analysis and action plans when problems are found

Since most emergencies do not occur, we have developed leading indicators that help tell us how well prepared we are if something did occur. How we perform on drills and audits are probably the best leading indicators, where we monitor cycle time, procedure adherence, and sound decision making.

6.2 Work Processes

a. Work Process Design

Once we have decided to perform a work process on our own, versus hiring an outside supplier, we employ a systematic process for defining the work process. Our employees in the R&D group spend a great deal of their time and monetary resources researching and developing new processes as well as new products. Often new products require new manufacturing processes. An example of this is our new shredded blends products. Once we developed the product, we also had to design the manufacturing process.

Processes are designed based on a great deal of research that involves looking at equipment/technology, costs, human capabilities, capacity limitations, food safety issues, and ability to control key process and output metrics. Once processes have been designed, we pilot the processes with a segment of the business to test it and refine it. In the case of manufacturing processes, we have pilot plants where new manufacturing processes can be thoroughly evaluated. Non-manufacturing processes are tested with a single customer, department, or NPPC location to refine the process until it is deployed throughout the company. For example, our on-site account team customer relationship management process was first tested with one customer and later expanded to others.

When evaluating and testing processes, we monitor both process and output data. Most processes end up going through many cycles of improvement before the final process is documented and agreed upon. For example, our Organizational Capabilities Questionnaire (OCQ) process of taking the voice of the customer and deploying it to employees and their behavior has been refined and improved many times over the last several years.

Fancy Feast Cat Appetizers is a great example of how we are able to design a new product and associated processes. The product created an entire new sub-segment of pet treats, and required new processes for manufacturing, packaging, and marketing.

b. Work Process Management

(1) Work processes in NPPC are systematically measured and managed using key requirements research to identify process variables that link to quality outputs and outcomes, and the development of a balanced set of metrics that include inputs, process, output and outcome metrics. Many of our manufacturing processes are automated, and key process variables are controlled with technology. Standards for process metrics are set based on tolerance research or ranges required to achieve quality outputs. If you examined all of the key processes in our company, you will find two types:

Type 1: Processes that must be performed with precision the same way every time to achieve the desired result. Examples include mining, packaging, extruding, mixing, order management, research, and quality testing. For Type 1 processes we rely on procedures/checklists, training, documentation, supervision, standards, automation, and frequent evaluation of process outputs to make sure processes are being performed correctly. These are the types of processes that are ideally suited to an ISO 9001 approach. Our Nestlé Quality Management System (NQMS) has been modeled after ISO 9001. Where possible, we have tried to automate these work processes so that we can ensure they are performed the same way each time.

Type 2: Processes that require creativity and do not demand that they are performed the same way each time, such as marketing, advertising, new product development/innovation, customer relationship management, and public relations. With these Type
In other words, we know from experience that we need a more strategic management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach.

The major cost items that go into our products include marketing, manufacturing raw materials and packaging, and distribution. Marketing and manufacturing are the two processes over which we have the most control of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. Our cost management model is more of an investment approach. Of cost since they are managed internally. 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processes such as recruiting/selection, performance management, and culture. A focus on drivers of financial results and market share also characterized this phase. Linking process metrics to outcome metrics helped all employees see their contribution to the overall goals of the company.

As 2009 began, we moved into the fifth phase of our continuous improvement effort: “Nestlé Continuous Excellence (NCE).” For the last two years, we have been working with NPPC departments and facilities to introduce the elements of this effort that includes a focus on ISO certification in the areas of food safety (22000), health & safety (18001) and environmental performance (14001). NPPC did extensive benchmarking of other companies, which revealed that building the proper foundations was the key to success. These foundations include both leadership development and goal alignment. Consequently, we will proceed further when the NCE foundations have been successfully completed.

In addition to our multi-year effort to implement a comprehensive continuous improvement model throughout NPPC, much of the improvement occurs informally as a result of meetings with colleagues, attending Floor Meetings, sales reviews, and other meetings where performance is being reviewed, and discovering best practices in our own work and sharing them with others. One of the values taught to all employees at NPPC is that the competition is outside our walls, not inside. This spirit of sharing and cooperation has resulted in a culture where a discovery of a best practice in one part of the company is shared with many others, not only in NPPC, but within Nestlé as well. We have created both the culture to make this happen and the tools to make it easy for people to document and share best practices.

7. RESULTS

7.1 Product Outcomes

Item 7.1 includes results related to our brand awareness and strength based on consumer perception data, internal measures of product quality, and measures of service quality such as order accuracy and on-time delivery.

Brand Awareness (all brands dog and cat)

Marketing is a key process in our company. Two perceptual measures that we use as top-line process measures are consumer brand awareness and brand image. All brand awareness and brand image data are collected by an external market research firm.

Figure 7.1-2 shows that NPPC is the most trusted pet food manufacturer.
Figure 7.1-3 shows that NPPC is among the leaders in the pet food industry in consumer perceptions of expertise.

Figure 7.1-4 shows that NPPC is a leader in consumer perceptions of quality.

Figure 7.1-6 shows the volume of dry pet food produced per day. While this is not really a performance measure, it is presented to show how we have produced more and more output while maintaining high levels of performance on other metrics.
Figure 7.1-8 presents consumer complaints for the past 13 quarters. It demonstrates the effectiveness of our internal quality control processes and is consistent with our high levels of consumer perception of product quality.

Case-fill (Figure 7.1-9) is a measure of shipping accuracy (i.e., shipping exactly what the customer ordered). Customer perceptions of our order accuracy have increased during the last two years. According to the Advantage Group’s Performance Monitor, we have improved our rank from 11 to 4 among major consumer packaged goods companies.

As with case fill, we use stringent measures for on-time delivery (Figure 7.1-10). Any reason for late delivery goes against our performance on this measure. Customer perceptions of our on-time delivery have increased during the last two years. According to the Advantage Group’s Performance Monitor, we have improved our rank from 11 to 6 among major consumer packaged goods companies.
7.2 Customer-Focused Outcomes

A key measure of consumer satisfaction is their buying behavior, which is represented by the charts that follow. Of households that purchase dry dog food, Figure 7.2-2 shows the percentage of households that use NPPC versus other national brand competitors (Nielsen data).

Figure 7.2-7 shows another measure of consumer satisfaction, the University of Michigan’s American Consumer Satisfaction Index (ACSI) for the pet food category, which compares our ratings versus our major competitors. We have been first (statistically tied or alone) for 8 of the past 8 years in the pet food category since Nestlé acquired Ralston Purina in 2002 (prior to 2002, data reported as Ralston Purina only).

We rely on our daily face-to-face interactions with customers to gauge ongoing satisfaction. We do, however, conduct two types of annual customer satisfaction surveys. Figure 7.2-8 shows retail customer satisfaction with NPPC as measured by our Monitor-Customer Satisfaction Index (MCSI), which is a survey conducted during even years (the Performance Monitor by the Advantage Group is conducted in odd years).
The Performance Monitor survey (Figure 7.2-9) asks major retail customers to rate and rank their vendors. NPPC is compared against other major consumer packaged goods companies. Our goal is to be ranked among the highest third of the top consumer packaged goods companies in the world.

7.3 Financial & Market Outcomes

Item 7.3 includes key measures of sales/revenue, growth, profitability, and market share, which are key Blueprint measures.

Figure 7.3-1 shows our annual sales trend for the last several years.

Figure 7.3-13 shows total market share in the pet care category. This market share data is based on dollar sales.
**7.4 Workforce-Focused Outcomes**

Item 7.4 includes data on key measures of recruiting/hiring, training, safety, and employee engagement/satisfaction.

One of our strategic challenges is attracting and retaining top talent. Figure 7.4-1 shows voluntary turnover. NPPC’s results have been influenced by a combination of improved selection processes, better matching of individuals to jobs, and increased feedback on job performance.

Figure 7.4-2 shows NPPC has maintained a very low level of absenteeism for the last six years, which is consistent with our high levels of employee engagement.

NPPC considers a balance between work and personal life to be important, and so we encourage employees to take all their allotted vacation time. One possible negative side effect of high levels of employee engagement is that people do not take their vacations (Figure 7.4-3) Our results show that associates lose some vacation time every year.
Figure 7.4-4 represents “Time to Productivity for New Hires.”

Figure 7.4-5 shows we have created sustainable job growth for the past several years.

Figure 7.4-6 represents “New Hire Quality.” This shows the effectiveness of our selection process.
Two key measures of our selection process are First Choice Hires and Offer/Acceptance Ratio (Figures 7.4-7 and 7.4-8).

After selecting the right people and putting them in the right jobs, it’s important to provide them with the knowledge and skills needed to perform well on the job. It is also important to keep our existing staff up to date on the latest knowledge and skills needed for their jobs. Figure 7.4-9 shows the average days of training per year per employee.
Figure 7.4-10 represents Training Evaluation in the form of reaction, learning, and transfer effectiveness.

Figure 7.4-11 is an aggregate measure of all survey items on the St. Louis Best Place to Work Survey. The survey includes topics such as alignment, trust, manager effectiveness, job satisfaction and general people practices. We were named one of St. Louis’ Best Places to Work in 2009 and 2010.

While we have been conducting the Organizational Capabilities Questionnaire (OCQ) for more than 10 years, it was only fully deployed in 2006. The OCQ measures multiple aspects of “relationship with supervisor”, including factors such as trust, leadership ability, and support (Figure 7.4-12).
Alignment is a measure of the degree to which employees have a good understanding of their own goals, objectives and responsibilities and how these link to overall company performance (Figure 7.4-13). Many refer to this concept as a key element of employee engagement.

Commitment is a measure of the degree to which employees are dedicated to the company and is also a key element of engagement (Figure 7.4-14).

Satisfaction is a measure of the degree to which employees are satisfied with their job and their company (Figure 7.4-15). The results we see here are consistent with the results from the St. Louis Best Place to Work survey.
Training effectiveness is a measure of the degree to which employees are satisfied with the training and development opportunities and programs (Figure 7.4-16).

### 7.5 Process Effectiveness Outcomes

Item 7.5 includes results from key measures of our manufacturing processes such as productivity, efficiency, and improved use of resources.

Figure 7.5-1 shows the relative change in our productivity from year to year since 2004.

Figure 7.5-2 shows NPPC Productivity (Sales Dollars per Production Hours Worked) over the last seven years. We have steadily increased our productivity between 2 to 9% annually during that time. We now have about 85% of our production processes automated.
Figure 7.5-3 shows another measure of NPPC productivity. Even with growing sales revenue, we have been able to steadily decrease plant operating costs as a percentage of sales.

Figure 7.5-6. Energy is a significant cost of pet food manufacturing. We have worked hard for the last 15 years to consistently reduce the amount of energy we use even though we are producing many more tons each year. Production of wet food requires significant energy and is the area where we have demonstrated the most dramatic improvements.

Figure 7.5-7. Water is an important part of our manufacturing process, especially with wet pet food. We have consistently reduced our water usage over the past 5 years.
7.6 Leadership Outcomes

One of our key strategies is to continually improve existing products (renovation) and introduce new products (innovation) to create consumer preference for NPPC brands.

Our revenue from renovation and innovation (R&I) shows consistent improvement over the last 7 years (Figure 7.6-1).

One of our key measures of ethical behavior and trust in senior leaders is the opinions and perceptions of our own employees. Four questions from the St. Louis Best Place to Work Survey address these issues. Figures 7.6-8 through 7.6-11 show that our performance over the last three years exceeds the benchmark and is established at a very high level.
Figure 7.6-12 shows the completion rate for our annual Business Ethics/Conflict of Interest Questionnaire. We routinely reach levels of 99.9% or better.
Figure 7.6-13 shows a key workforce training initiative related to ethical behavior. A mandatory training course, Civil Treatment for Managers provides managers with the tools they need to manage fairly and legally in today’s changing workplace.

Figure 7.6-14: The goal of the Creating an Inclusive Workplace workshop is for participants to gain a deeper understanding of why diversity is important to NPPC and how we can apply our enhanced knowledge to more effectively utilize diversity to improve performance.

In addition to the traditional “in class” training, NPPC also provides mandatory e-learning courses on topics related to ethical behavior.
In addition to the results mentioned previously, we have many other indicators of our support for key communities and fulfillment of societal responsibilities in the areas of animal welfare, nutrition, charity, community, and the environment. Key initiatives regarding sustainability are now part of our annual business plan. Some of the key results are listed below:

• Energy reduction at Checkerboard Square 2.9% in 2008 and 4.0% in 2009.
• Reduced 40 cleaning products to four that are all green (first company to do this six years ago).
• NPPC’s Denver plant implemented a solar energy project in 2008, making us the first U.S. manufacturer to utilize renewable energy for the production of pet food.
• As one of the initial members of the Northern Arizona Renewable Energy Purchasing Group in 2008, our Flagstaff plant has committed to purchasing renewable energy in an effort to persuade Arizona Public Service to invest in long-term strategies for renewable energies.
• Approximately two-thirds of the electric energy purchased at our Dunkirk, New York, plant comes from renewable sources, and our three plants in Iowa each purchase more than 10% of their electric energy from renewable sources.
• NPPC engineers designed a new, sanitary and energy efficient fluorescent light fixture that is currently being deployed at warehouses throughout North America. Over the last 10 years, we have lowered the cost of lighting by 50% in the U.S., while at the same time improving the quality of lighting.
• We participate in the EPA’s SmartWay Partnership, which uses streamlined, more efficient shipping methods to conserve fuel.
• New Gray Summit visitor center will be LEED Gold Certified, which is a widely-recognized green building certification program.
• We have recycled all our trash for many years and have been benchmarked by other large organizations in the St. Louis metro area.
• We partner with RecycleBank to provide consumers a strong incentive to recycle their wet pet food cans.
• Our Purina Give A Bowl program contributed $104,240 to shelters across the intercontinental U.S. in high value Purina Brand Food Coupons to redeem to feed homeless dogs and cats.
• ONE HOPE program provides food and marketing awareness to shelters in addition to monetary donations.
• Rally to Rescue provides food and fund raising opportunities to rescue groups (500 nationally).
• We partner with Delta Society, a non-profit organization that promotes human health and well-being through animal-assisted therapy, to provide monetary support, as well as employee commitment and volunteerism for Delta’s Pet Partners program.
• In 2008, NPPC was recognized as a finalist for the St. Louis Business Journal’s “Heroes of the Planet” environmental award, which honors businesses that have led the way in advancing and promoting environmental sustainability within the region.
• We provided more than $90,000 to the St. Louis Summer Youth Employment Program, which included providing salaries for 30 underserved students for eight weeks, as well as weekly sessions on leadership training, skill development, character education, networking and career/ life resources.
• We provided 10 annual scholarships for University of Nebraska-Lincoln’s new Food Technology for Companion Animals program.
• Our ingredient tracking system ensures all raw ingredients are tracked from time of receipt at our plants, through their inclusion in finished products, and on to retail stores.
• We participate in the Rapid Recall Exchange Program, which applies industry expertise and best practices to standardize product recall and withdrawal notifications between retailers/wholesalers and suppliers.
• Employees throughout the U.S. participate in an annual PetCare Pride Day, a day focused on community service. Past activities included renovating animal shelters; constructing Habitat for Humanity homes; constructing dog houses, cat scratching posts, and dog beds for animal shelters; making fleece blankets; and assembling ready-to-eat meals for local charities.