



ESG case study: Kimberly-Clark de Mexico

The RBC Emerging Markets Equity team

Kimberly-Clark de Mexico (KCM), a personal products producer, started its operations in Mexico in 1949, becoming the leader in most of the categories in which it operates. We have written this article based on the company sustainability report¹. KCM believes that making the best products through strong innovation, serving customers and vendors well, dealing fairly with employees, and having strong environmental values has enabled the company to become a market leader. The role of the CEO and the leadership team has been crucial to the integration of sustainable business practices into the organisation. Sustainability and company ethics are key items for senior management. Every business unit sets goals for social and environmental outcomes which has enabled the company to significantly improve its performance in all areas.

KCM's long-term vision is focused on achieving sustainable results that translate into profitable, sustainable growth through constant value creation in the three dimensions of its sustainability strategy:

1. Economic value for shareholders and stakeholders. KCM has been delivering strong and stable returns since it began operating in Mexico, with returns significantly above cost of capital. KCM's strong value creation has been created and sustained by:

- **Innovation:** KCM considers innovation as key to its strategy. As a result of its innovative culture, KCM is the only company that has a product in each tier of every market category. This has enabled the company to be a market leader in many categories.
- **Strong investment culture:** KCM is willing to sacrifice short-term profits to improve its long-term positioning

within the industry. Given the low labour-intensity of this business, KCM is constantly investing in technology for more efficient production processes, especially for water and energy usage. An increased selection of products also requires improved machinery. KCM has been spending approximately MXN 1.5bn a year since 2012, to improve efficiency, which has enabled the company to become the industry's lowest-cost producer in Mexico. For example, KCM announced MXN 1bn in cost savings by improving its technology and processes in 2016.

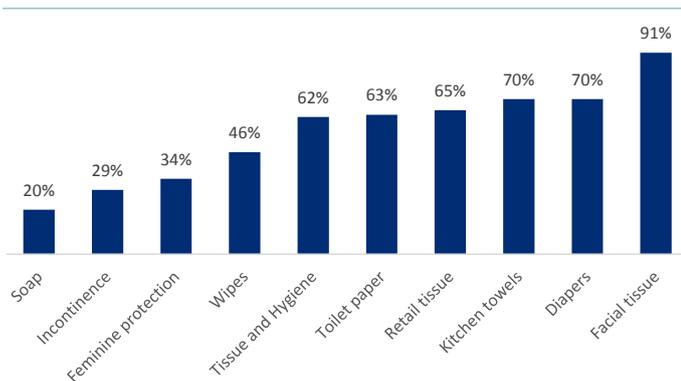
- **Partnership with Kimberly-Clark Corp (KCC):** Company executives are in constant contact with their counterparts in the United States, but are allowed to make their own decisions, governed by their in-depth knowledge of the Mexican consumer. In 1991, for example, the company issued 17 new products, including gender-specific diapers in five age-related segments, a kitchen towel, three sanitary product offerings, two larger-sized and coloured paper napkins, notebooks, and toilet paper dispensers.

2. Strong stakeholder engagement

- **Strong employee focus:** The sustainability agenda is a highly valuable tool for connecting people across the business, as it motivates and engages staff. KCM is a good example of this as it shares a significant part of its profits with employees. Since 2014, KCM has shared approximately 15% of net earnings each year with its employees. As a result, staff turnover is low, at below 12%. The average length of service is 9.3 years, which is above the national average.
- **Diversity:** KCM is committed to non-discrimination and equal opportunities. The percentage of women in executive positions is extremely high, steadily increasing from 20% in 2012 to 36% in 2017. This is far above the average for Latin America where only 10% of executive positions are held by women.

- **Strong environmental performance.** The initial focus was on energy efficiency, water usage and chemical waste. After the first review in 2000, it was clear that the cost savings, resulting from the initiatives, were having a strong impact on the company's profits. KCM's production sites work with full adherence to its environmental policy; examples of this are the water and air management systems as well as the increased use of recycled fibre.

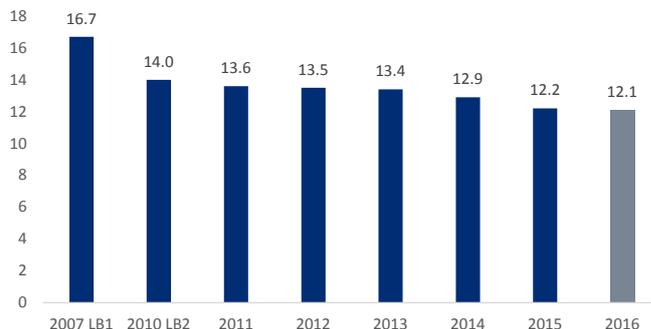
Product market share



Source: Euromonitor, December 2017

- Recycled fibre:** KCM invested significantly in technology to increase its use of recycled fibres. In 2000, the company used almost no recycled fibres, but now the level has reached 65%.
- Energy efficiency:** Within its business risk analysis, KCM recognises the importance of implementing measures to mitigate climate change risk. In this context, KCM has reduced its greenhouse gas emissions by approximately 20%.
- Water usage:** Water is essential to the manufacture, delivery and use of KCM’s products and services. As a result of strong processes and technology, KCM has managed to reduce its water consumption by approximately 30% per metric ton since 2007.
- The company has even worked with Greenpeace to refine its environmental policy regarding timber procurement. Putting its sustainability strategy into action, KCM has improved its relationship with environmental non governmental organisation, the World Wide Fund for Nature. At the parent company level, in 2003 Kimberly-Clark started requiring third party fibre certification for companies in its supply chain.

Water usage per metric ton



Source: KCM company annual & sustainability reports, December 2017. LB=Base Line

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Zeena is a Portfolio Manager in the Emerging Markets Equity Team in London. Zeena began her investment career in 2007 and joined RBC Global Asset Management in 2009. Zeena has been with the team since inception. Prior to joining RBC GAM, Zeena worked as an investment banking analyst for Lehman Brothers, which subsequently became Nomura. During her time as an analyst Zeena’s coverage included a number of emerging markets regions. In 2007, Zeena obtained a BSc (Econ) from the London School of Economics. Zeena is a CFA charterholder.



¹Source: Kimberly-Clark de Mexico Company Sustainability Report 2016.

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