The Proof of the Pudding...

Benchmarking ten of the world’s largest food companies’ response to obesity and related health concerns

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Contents

- Context
- Aims and methodology
- Summary findings
- Detailed findings
  - By company
  - By issue
- Recommendations to companies
According to the WHO, in 2006, 1.6 billion adults are overweight and at least 400 million clinically obese.

155 million school age children are also overweight: 1 in 10 globally.

The problem is truly global – a critical issue in both developed and developing countries.

These trends are expected to continue, fuelled by increasing wealth and changing diets, particularly among the growing middle classes in the developing world.

The health problems caused by obesity are well documented – including increased risk of heart disease, stroke, cancer and diabetes.

The economic impact of these health problems is significant – it is estimated obesity related illness accounts for 7% of health care costs in the EU already.
“It is puzzling – with the benefit of hindsight – why a large part of the food industry took its eye off the ‘nutritional’ ball during the 1990’s. Unfortunately, while we were focussed on issues of taste, convenience and value, consumers were getting fat, unfit and progressively unhealthier ... It is important to acknowledge that the issues we face as a European food industry are partly an outcome of our own success.”

Speech by Patrick Cescau, Group CEO, Unilever at CIAA Congress, October 2006.
Food companies face a shifting commercial landscape: high levels of obesity and related disease are driving governments to act and consumers to change their eating habits.

In response, companies have been reformulating products, improving consumer information (e.g. labelling), stepping up R&D effort, adjusting marketing practices, etc.

However, they still face the threat of regulation: on labelling, advertising, health & nutritional claims, food composition and pressure to contribute more to promoting healthy lifestyles, by, for example, offering healthier options and encouraging consumers to do more exercise.

Fastest Growing F&B Categories Across the World

- Fresh Soup/Stock
- Drinkable Yoghurt
- Dairy Based Drinks
- Frozen Meals
- Water
- Frozen Fruit
- Fresh Sauces
- Coffee
- Fresh Dips
- Fresh Baking
- Sports Drinks

Source: ACNielsen data 2007
Changing landscape for food companies: 2

- At present, US and EU governments are backing voluntary approaches, giving the industry a few years to demonstrate that it can tackle these problems without the need for intervention.

- We believe it is essential for companies to demonstrate that they are doing a comprehensive, effective job in order to avoid regulation in the future and to demonstrate that they are ‘responsible corporate citizens’ to consumers and other stakeholders.

- Moreover, as investors, we need to understand companies’ strategies for addressing obesity and related health issues, and whether they are set to gain competitive advantage from those strategies.
“The rise of obesity makes improving the diets and physical activity levels of Europeans a top public health priority for the EU in the years ahead. If we don't act, today's overweight children will be tomorrow's heart attack victims. What consumers eat is up to them, but they should be able to make informed choices, and have a range of healthy options to choose from. That is why the Commission is reviewing the options for nutrition labelling, and calling on industry to advertise responsibly and reduce levels of salt, fats and sugar in food products.”

EU Health Commissioner Markos Kyprianou

“The [US] food and beverage industry is committed to helping arrest and reverse the growth of obesity around the world. Achieving this goal will require multiple strategies, the integrated efforts of many sectors and long-term resolve. We are committed to doing our part and will support others in doing theirs.”

GMA global strategy on food and health
Aims and methodology
Aims of the Insight / JPMorgan benchmarking exercise

- Develop a clear picture of how ten of the world’s leading listed food companies are addressing the global obesity crisis.
- Assess which companies are best positioned in the market to take advantage of the trend towards healthier eating:
  - Use this knowledge to provide key information to support investment recommendations and decisions
- Understand exactly which dimensions of best practice companies are meeting, and which they are not – and encourage them to do so.
- Make a series of recommendations to companies as to where to focus their effort.
Methodology - 1


- Encompasses all the key components of a comprehensive corporate response to consumer health and obesity challenges.

- All companies initially evaluated on the basis of their public disclosure and assigned a score for the quality of reporting: sources used included annual reports, SEC filings, corporate responsibility reports or similar, websites.

- Meetings offered to all companies to discuss initial findings and provide a comprehensive explanation of their strategies and programmes:
  - 7 companies took the opportunity to meet
  - Cadbury, Heinz and Kraft were not in a position to meet

- Final analysis and score for performance completed on the basis of additional information provided in company meetings.

- Companies sent final provisional scores and offered the opportunity to review and provide additional information, which several did.
Methodology - 2

Analysis separated into four key sections:

Section 1: Framing the issue: Risks and Opportunities
- Examines a company’s understanding of the issues, its stated policies and its analysis of the risks posed to its business.

Section 2: Formulating Objectives and Strategy
- Analyses the objectives and strategy a company has set out for this issue.

Section 3: Establishing Appropriate Governance Mechanisms
- Considers a company’s governance and external consultation with relevant stakeholders.

Section 4: Implementing the Strategy
- The largest section which focuses on exactly what the company is doing to deliver its health and wellness strategy.
Summary results
## Overall results

<table>
<thead>
<tr>
<th>Company</th>
<th>Score Range</th>
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<tbody>
<tr>
<td>Danone</td>
<td>Score above 70%</td>
</tr>
<tr>
<td>Unilever</td>
<td></td>
</tr>
<tr>
<td>Nestlé</td>
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<tr>
<td>Kellogg</td>
<td></td>
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<tr>
<td>Cadbury Schweppes</td>
<td>Score between 50% and 69%</td>
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<tr>
<td>Kraft</td>
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<td>Heinz</td>
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<td>PepsiCo</td>
<td></td>
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<tr>
<td>Coca Cola</td>
<td>Score below 50%</td>
</tr>
<tr>
<td>Premier Foods</td>
<td></td>
</tr>
</tbody>
</table>

*Image source: Insight INVESTMENT*
Danone, Unilever and Nestlé lead the pack...

The companies can be grouped into three categories:

- Danone, Unilever and Nestlé: The three best performing companies.
- Kelloggs, Kraft, Cadbury and PepsiCo: While in some areas they perform well, in others they lag the leaders.
- Coca Cola, Premier and Heinz: These companies score poorly in several categories and appear not to be as fully engaged in many key areas as their peers.

Several companies appear to do a good job of reporting most of what they do, e.g. Danone, Kraft and Coca Cola.

But others seem to be hiding their light under a bushel and not making the most of their work in this area. This is shown by the large difference in reporting and performance scores – explained later.
Summary findings - 1

- We are broadly encouraged by what many companies are doing to address obesity and gain competitive advantage by doing so at the same time. However, some seem to be somewhat behind and losing ground to their competitors.

- In general, European companies score best. They seem to be more engaged with the international debate and more active than their US counterparts in all markets. US companies tend to focus their efforts on their home market, and do much less in other markets, particularly developing countries.

- However, most companies are only really acting in the US and Europe, not in the rest of world ... because this is where they have been threatened by regulation?

- While many companies have well-established programmes to address their environmental impacts, for example, many are significantly behind in this area – yet it is core to their business:
  - Most don’t have a strategic approach, with objectives, targets, comprehensive reporting etc.

- Other than the three leading companies, the rest don’t appear to do a good job of communicating how their programmes on health and wellness add value to the business.

- Company size does not correlate with the results
Detailed results
Analysis by company
Danone (1) and Unilever (2)

Danone

- Danone not only has the ‘healthiest’ portfolio, the management is clearly focused on capitalizing on the shifts in consumer trends and addressing obesity and related health issues.

- It has a comprehensive policy and strategy for addressing health issues, delivered through well structured and well resourced programs.

- It provides excellent product labelling and consumer information, in our opinion, and has made good progress in reformulating those products that were the least healthy.

- Danone is fully engaged with key policymakers and stakeholders and promotes wellbeing amongst its employees and supports extensive sports and physical activity programs.

Unilever

- Unilever, a company with a diverse food portfolio, claims second place.

- Unilever appears to have integrated concern about obesity centrally into its core business strategy.

- Unilever’s radical reformulation of its whole portfolio, bringing as many products as possible in line with FDA/EU nutrition standards illustrates how it is delivering its Vitality mission.

- Unilever has responded to threats to restrict food marketing by publishing a strong set of responsible marketing principles, especially with respect to children.

- The company has made strong commitments to R&D to deliver on its Vitality mission in the Unilever Food & Research Health Institute.

- The company has a strong programme of stakeholder engagement, which is helping it to identify emerging concerns and stay at the cutting edge of the health and nutrition debate.
Nestlé (3) and Kellogg (4)

Nestlé

- Nestlé, the world’s largest food company with a very diverse portfolio of products, has placed consumer health and wellness at the centre of its strategy and has put in place seemingly excellent policies and strategies, which it is making good progress on delivering through a series of company wide initiatives.

- The company’s 60/40+ program seeks to ensure that Nestlé products are not only preferred by 6 out of 10 consumers but also have a better nutrition profile than competitors’ products.

- Nestlé also provides accessible and affordable products to the poorest communities in many markets. It views this as an important market opportunity.

- Nestlé also appears to be doing a good job of educating customers and encouraging an active and healthy lifestyles.

- The company has not set clear targets to flag its future intentions; it has not yet done as much as others to offer calorie-controlled options and smaller portion sizes.

Kellogg

- Kellogg is the best performing American company in the survey.

- The company is doing a great deal to capitalize on its history and reputation to capture the market opportunities generated by the increased focus on health and wellness; however, we believe it does not do as good a job as the leading companies in communicating this.

- Kellogg focuses primarily upon communicating to consumers rather than setting clear objectives and targets and articulating its plans to investors and other stakeholders.

- The company made a far-reaching commitment to reformulate many of its products so as to meet higher nutritional standards and not to market those that don’t meet these standards to children.

- The company could, in our view, improve its engagement with stakeholders to understand emerging concerns.
Cadbury Schweppes (5) and Kraft (6)

**Cadbury Schweppes**

- Cadbury appears to understand and continues to be proactive in addressing many health and wellness issues; however, since we were unable to meet the company this view is based solely on an evaluation of its reported material. We also recognize the company is currently in the process of restructuring.

- The company has published a comprehensive 12 point action plan, against which it reports upon its progress regularly.

- The company does not appear to have made as much progress as others in the sector in reformulating its products to achieve higher nutritional standards, nor invest as much as other food companies in educating its customers around the world in healthy eating.

- The company has published good policies to govern how it markets its products.

- It sponsors a large number of sport programmes around the world.

**Kraft**

- As a company with a very diverse product portfolio, Kraft has begun to make progress in integrating health considerations into its business.

- Although the company internally recognises the challenge of obesity, it has not articulated a clear set of objectives and targets to guide the business in this area. Thus it is unclear to stakeholders and investors how extensive its commitments are, and whether they are beginning to transform the business.

- It has made broad commitments to reducing salt, fats and sugar in its products, particularly on the US market, but it is hard to tell what progress it has made globally.

- Kraft’s marketing policy appears somewhat weaker than competitors as do its efforts to offer smaller portion sizes, calorie-delimited products and ensure that its low income customers have easy access to healthy options.
PepsiCo (8) and Coca Cola (9)

PepsiCo

- PepsiCo, as a company with a portfolio concentrated on soft drinks and snacks, has now begun, somewhat belatedly, to articulate some objectives, targets and a strategy for addressing health and wellness.

- The CEO has signalled that this will be a priority area going forward, and has recruited a leading public health specialist to demonstrate its commitment as well as directing key senior staff to focus increasingly on nutrition.

- The company lags many of its competitors in setting nutrition standards (despite its good work on transfat reduction), reformulating its portfolio, offering alternative products and focusing on ensuring that its healthier lines are easily accessible to all customers. Its focus to date has been somewhat limited to SmartSpot products in the US.

- The company has joined a number of initiatives to strengthen marketing practices to children but it has yet to publish a comprehensive policy that accords with best practice; it also lags on product labelling and nutrition education programmes.

Coca Cola

- Coca Cola insists it recognises the need for companies to respond to concerns about obesity, but does not articulate this clearly, and has not yet articulated a clear set of objectives and targets in this area, nor a strategy for achieving them.

- The company has focused on providing consumers with more information and encouraging them to lead active lifestyles through its sponsorship of sport and physical activity programmes around the world.

- It is also focused on developing low calorie and diet options in all ranges and acquiring companies with healthier product profiles, such as water, juice and tea.

- One area of concern is that the company does not publish a comprehensive global policy guiding its marketing to both adults and children, whereas many companies have done so.
Heinz (7) and Premier Foods (10)

Heinz

- Since we were unable to meet Heinz, this view is based solely on an evaluation of its reported material and information provided by the company.

- Heinz does not have a published statement framing the global obesity problem and its response to it, nor does it provide any information on any regional/local efforts it undertakes to combat obesity.

- Heinz has made a strong pledge in the marketing and promotions of its foods to all consumers, with even more stringent policies in marketing to children.

- The company would need to step up its efforts in all areas if it is to match the performance of its competitors and ensure that it leverages the opportunities available to it given its relatively healthy product portfolio.

Premier Foods

- Premier is the lowest scoring European company, as well as the smallest in this benchmark, which markets only in the UK and Ireland. It has also been fundamentally restructuring having acquired several businesses in recent years—some of which position the company well to capitalize on health and wellness trends.

- However, given recent acquisitions, it is now a much bigger player and, in our opinion, needs to adopt appropriate strategies and policies.

- It is in the early stages of developing a strategy for addressing health, wellness and nutrition issues and setting priorities for the next few years.

- We think the company would benefit if it were to build on its initial commitments and progress in reformulating products, introduce front-of-pack nutrition labelling and extend its consultation with stakeholders and support of community nutrition education and sports activity programmes.
Detailed results

Analysis by issue
Analysis by section

Section 1: Framing the issue: Risks and Opportunities
- Examines a company’s understanding of the issues, its stated policies and its analysis of the risks posed to its business.

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Section 1: Framing the Issue

Companies evaluated on whether they meet best practice:

- Does the company have a comprehensive global policy statement acknowledging the severity and scale of obesity and related health issues and outlining the steps it intends to take to address them?

- Does the company undertake regional health and nutrition research in order to inform its strategy and product development, and to contribute to addressing obesity in local markets?

- Has the company assessed the risks consumer health and obesity risks pose to their business in its Annual Report and Accounts or similar filings?
Global policy / link to strategy

- Large European companies demonstrate that they have researched and understood global health and obesity trends and have articulated their view of how they should play a part in addressing them.

- They appear to be aware of, and reference, the definite policy statement in this area, the DPAS of WHO etc.

- US companies tend not to publish such statements or policies, and seem to shy away from using the term obesity and setting out their role in addressing it.

- Best practice in this area is demonstrated by Nestlé and Danone.
Is Health and Wellness core to the business strategy?

Highlighted in strategy statements

**Nestlé**

Nestlé has evolved from being simply a food and beverage company to become a **global leader in Nutrition, Health and Wellness**.

“We have a responsibility to make available to everyone, everywhere the best quality highly nutritious food — whether in a trendy part of London, or a remote village of Madagascar. This is good for the consumer, but it’s also good for us: as we add a superior nutrition, health and wellness dimension to our products, so we move Nestlé to faster growing, more profitable segments of the food industry.”

Nestlé’s 2006 Management Report

**Danone**

“At the very heart of Groupe DANONE, a core belief is that food plays a major role in promoting well-being and health in everyone. We believe that the food industry is an actor with a role to play in the field of public health. This is why we continually strive to enhance the nutritional quality of our products, to invest in research, and to develop information and educational programmes aimed at promoting the virtues of physical activity and a balanced diet. This conviction has always been at the heart of our Groupe, its history and its brands. It gets stronger every year and shapes our commitment to food quality, nutrition, and health. It shapes the daily action of Groupe DANONE employees around the world and is the inspiration behind our Food, Nutrition, and Health Charter.”

Frank Riboud, 2005

Not highlighted in strategy statements

**Kraft’s strategies:**
Creating reliable, consistent growth. That’s what we’re doing at Kraft, and our strategies are focusing our efforts.

Rewire the organization for growth • Reframe our categories • Exploit our sales capabilities • Drive down costs without compromising quality

**PepsiCo’s mission is:**
“To be the world’s premier consumer products company focused on convenient foods and beverages. We seek to produce healthy financial rewards to investors as we provide opportunities for growth and enrichment to our employees, our business partners and the communities in which we operate. And in everything we do, we strive for honesty, fairness and integrity.”

**Coca Cola:**
Everything we do is inspired by our enduring mission: To Refresh the World…in body, mind, and spirit. To Inspire Moments of Optimism…through our brands and our actions. To Create Value and Make a Difference…everywhere we engage.

Source: Company websites
Understanding regional needs through research

- It is critical for companies to understand the health status and nutritional profile of consumers in different markets, including developing countries with emerging obesity problems.
- Many have done this on malnutrition which has led to the fortification of several products.
- Generally, the companies don’t seem to use same approach to addressing ‘over-nutrition’ in order to inform their decisions on product development, product mix, marketing etc.

Global Obesity - Women Frequency of BMI (%)

- Danone has undertaken specific nutrition research in each area in which it operates and then tailored its products for local markets, to meet a community’s nutritional needs more effectively.
- If companies are to position themselves to capture market opportunities related to obesity, this kind of research is essential.

Source: American Heart Association, IOTF
Risk assessment

- Some companies include obesity risks in a section within the AR&A discussing business risks.

- Some American companies include obesity risks in their SEC 10K Filing.

- However, most provide little or no analysis on the risks to the business they perceive from these issues on an ongoing basis.

- We would like to see all companies demonstrate that they have undertaken a comprehensive risk analysis on which to base their strategy for addressing these risks (and opportunities).

**Best practice example: Coca Cola’s risk discussion in 10K filing**

‘Obesity concerns may reduce demand for some of our products ... Consumers, public health officials and government officials are becoming increasingly aware of and concerned about the public health consequences associated with obesity, particularly among young people. In addition, press reports indicate that lawyers and consumer advocates have publicly threatened to instigate litigation against companies in our industry, including us, alleging unfair and/or deceptive practices related to contracts to sell sparkling and other beverages in schools. Increasing public awareness about these issues and negative publicity resulting from actual or threatened legal actions may reduce demand for our sparkling beverages, which could affect our profitability.’

Source: Coca Cola 10K
Section 2: Formulating objectives and strategy

Companies evaluated on whether they meet best practice:

- Has the company articulated fully a series of objectives to combat obesity throughout the business? Are these objectives published for investors and other stakeholders to evaluate?

- Has the company published a detailed strategy for achieving its consumer health and obesity-focused objectives?

- Does the company publish specific KPIs and targets relating to obesity and consumer health, with timelines?

- Is the company refocusing its core products to take advantage of increasing consumer awareness of health and nutrition?

- Has the company undertaken M&A to increase its exposure to these trends and broaden the healthy characteristics of its portfolio?
Objectives and strategy

- Several companies have integrated their commitment to health and wellness into their core mission – as already discussed.
- Few companies yet articulate clearly a full set of objectives covering R&D, product development, consumer information and education, sports, stakeholder and expert engagement and management oversight of the issues.
- Some refer obliquely to a few objectives but without any providing any strategy for fulfilling these.
- Companies appear to be reluctant to set targets. Only a few companies have set any targets or KPIs relating to this agenda.
- In all other areas of corporate responsibility, companies have become accustomed to setting targets, e.g. on energy efficiency, auditing supply chains etc.
- Companies should refer to Box A of ‘A Recipe for Success’ for a long list of suggested targets and KPIs.
### Best practice example: Cadbury Schweppes 12 point plan

1. **Products and innovation** - measurable progress
2. **Marketing and children** - we can help
3. **Portion size** - variety and moderation
4. **Labelling** - an industry first
5. **Vending in schools** - by invitation only
6. **Consumer insight and research** - sharing to help others
7. **Energy balance** - we support building understanding
8. **Community** - our people are all part of their local community
9. **Business Partners** - our customers and suppliers
10. **Employee health and wellbeing** - because our employees are customers too
11. **Science, nutrition and innovation** - we have increased support
12. **Stakeholders** - we value what others think

*Source: Company Website*
M&A Activity: An unspoken way of addressing portfolio issues?

- An important way companies can enhance their product offering in the ‘healthy eating category’ is by acquiring other companies.

- Several companies have made such acquisitions in recent years; others do not seem to be considering this option as part of their strategy.

- Although few companies dare to articulate their acquisition strategy around the concept of health/nutrition (or as a response to the obesity crisis) it is clear that the large F&B companies have dedicated a large portion of their acquisition wallet to ‘healthy food’ companies, often commanding a substantial premium. We expect that trend to continue.

### Examples of recent healthy food acquisitions

<table>
<thead>
<tr>
<th>Date</th>
<th>Acquiror</th>
<th>Target</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov-07</td>
<td>Kellogg</td>
<td>Bear Naked, Wholesome &amp; Hearty Foods</td>
<td>$122m</td>
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<tr>
<td>Jun-05</td>
<td>Premier</td>
<td>Marlow Foods, Cauldron Foods</td>
<td>£199m</td>
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<td>Apr-00</td>
<td>Unilever</td>
<td>Slim Fast</td>
<td>$2.3bn</td>
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<tr>
<td>Jun-06</td>
<td>Nestlé</td>
<td>Jenny Craig</td>
<td>$600m</td>
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<td>Jul-07</td>
<td>Danone</td>
<td>Numico</td>
<td>€12.3bn</td>
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<tr>
<td>Dec-00</td>
<td>PepsiCo</td>
<td>Quaker Oats</td>
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<td>Glaceau</td>
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<td>Feb-00</td>
<td>Kraft</td>
<td>Balance Bar</td>
<td>$286m</td>
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Source: Company Reports, JPM and Insight research
Section 3: Establishing appropriate governance mechanisms

Companies evaluated on whether they meet best practice:

- Does the Board allocate explicit responsibility for consumer health issues to one of its members and also to a senior manager?
- Does the company provide factual nutrition training for its staff?
- Does the company consult with experts and critics in food, nutrition, consumer health etc? Is this a formal advisory group, multistakeholder and independent?
- Does the company report extensively on consumer health issues in its AR&A, augmented by its CR report and website?
Some companies appear to have dedicated extensive resources to this agenda; others have not, or are not clear about whether they have in reporting.

Some companies have set up committees or internal advisory boards, but it is unclear how they interact with management, nor how issues and concerns are brought to Board level.

Many did not explain their internal reporting structure on these issues.

Very few companies provide nutritional advice and training to their staff – a valuable way to embed understanding and action across the business.

Best practice Example: Danone’s diagram of 2 layer board control

Source: Danone
Seeking expert external advice

- Some companies – mostly American companies – have set up advisory panels: PepsiCo, Coca Cola, Heinz, Kellogg, Kraft, Unilever and Cadbury Schweppes.

- However, only Unilever has a board / panel with a wide mix of experts. Unilever creates several foundation boards in different countries to ensure their response is tailored to their local market.

- Most appoint only experts in nutrition and do not embrace specialists in areas of education, responsible marketing, community sports, labelling etc.

- Some companies have other methods of seeking expert advice, which we encourage. Danone, for example, hosts a ‘warts and all’ forum with its CEO, where key experts and critics can ask any questions and receive answers from the top level of senior management.

- We believe it's important for companies to embrace their critics, in order to be aware of emerging concerns, campaign etc. at an early stage.
Difference between reporting score and actual performance

- Kraft
- Coca-Cola
- Danone
- Premier
- PepsiCo
- Unilever
- Nestle
- Kelloggs

Company

Percentage score differential

NB: Cadbury Schweppes and Heinz were unable to meet with us and thus were not awarded a performance score.

Source: JPMorgan and Insight Investment research
Results demonstrate that some companies report extensively and well. They also show which companies do not report as effectively as they could – missing an opportunity to enhance their reputations, demonstrate their action to stakeholders. Much of the key information was not publicly available. Company scores improved dramatically after our meetings. Most US companies seem to view their sole audience to be consumers, and do not provide information that would be of interest to other stakeholders, including responsible investors who increasingly take into account companies’ performance on environmental, social, health etc issues.
Section 4: Implementing the strategy

- Has the company made a commitment to significantly increasing R&D spending on obesity and related health issues?
- What percentage of its product portfolio has the company reformulated, by reducing fat / salt / sugar / transfats?
- Has the company addressed issues over portion sizing by abandoning overlarge portions, introducing smaller sizes and calorie delimited options?
- In what proportion of its product range does the company provide healthy alternatives?
- Does the company label effectively - providing descriptive front of pack labelling and ‘Big 8’ data on the back of pack and easy to interpret information on the front?
- Does the company have a clear policy on nutrition and health claims?
- Does the company have a marketing policy to ensure products are represented fairly? Does it have stronger principles on marketing to children?
- Does the company provide examples of how it makes products affordable and accessible to low income consumers?
- Does the company engage with key stakeholders and critics, and provide feedback on how these meetings impact its strategy?
- Does the company support physical activity, nutrition education and employee wellbeing programmes across the globe?
Investment in R&D

- Investment in R&D to determine how to reformulate products to make them more nutritious, and to develop new healthier products is essential in our view.

- Many companies provided no information on their R&D spending breakdown.

- Very few provided data or commitments on future plans for their R&D budget.

- It is important for companies’ core business to make clear whether their strategy to move into healthier segments is through significant R&D investment or acquisition – or both.
European companies generally appear to have made more progress on reformulating their products.

The most sophisticated approach is demonstrated by Unilever/Danone/Nestlé which set nutrition standards using WHO/FDA/EU guidance and then systematically categorise and reformulate their portfolios.

US companies tend to make commitments to reduce some ingredients (fats/sugar/salt) in specific foods.

Companies are generally poor at reporting their progress and impacts on sales from these programmes.

**Best Practice Example: Unilever**

“Our aim was to develop a globally applicable method (Nutrition Score) to evaluate and improve individual foods and beverages for their nutritional composition. The choice of the nutrients is in line with the currently available scientific consensus on nutrients with undesirable health effects... We have applied the method on Unilever’s whole global food and beverages’ portfolio to improve nutritional quality. We believe the method can be applied to any product portfolio, which will help food manufacturers to develop healthier alternatives. This could have a significant impact on the nutritional quality of the overall diet.”

European journal of Clinical Nutrition, CAJ Nijman et al, Unilever Food & Health Research Institute

Source: European Journal of Clinical Nutrition
Most companies have not reformulated the majority of their products so far.

European companies are further along the process.

Most products are only reformulated in the US and EU markets, not globally.

Several companies have made good progress on eliminating transfats and salts – thus potentially avoiding any forthcoming regulation in this area.

**Best Practice Examples: Transfat**

Danone eliminated transfats from products in 1998.

Unilever and Nestlé have begun to remove transfats from their entire product, and have set targets to remove all transfats where it is feasible.

Pepsi is in the process of setting targets for 2010, although hopes to be transfat free by the end of 2008.
Alternatives

- Generally, most companies have begun to provide healthy options in some of their ranges.
- These products are often the fastest growing lines.
- Some companies provide no detail on the number of healthy options they offer across their whole range.
- Not clear that they introduce these globally – often just US & Europe.
- It is important that companies focus on both introducing healthier alternatives AND reformulating existing products.

Source: Company Websites
Portion size / calorie control

- Few companies offer calorie-delimited options or pledge to abandon overlarge portions:
  - Cadbury, Premier and Unilever, for example, have pledged to abandon overlarge portions
- Any reductions in portion sizes are usually focused in EU and US markets.
- Many companies do offer smaller portion sizes:
  - Coca-Cola introduced a new 100 calorie bottle
  - Nestlé has introduced smaller portion sizes on some lines and some calorie-delimited products
- However few companies report on the sales of these products.
- Some companies have diet food brands in their portfolio – such as Jenny Craig (Nestlé) and Slim Fast (Unilever) – but the focus rightly seems to be on promoting lower calorie and tasty products taken as part of a normal diet and marketed under an umbrella brand (e.g. Danone – Taillefine).

Source: Company Websites
Product labelling

- Most companies are moving to Big 8 on the back of packaging (a US requirement for some time).
- Most companies are also offering nutritional information by serving size, and by % of GDA.
- However this is typically in the US and EU, where regulation has been threatened:
  - Unilever, Danone and Nestlé are providing labelling worldwide however.
- There is also great variation on what companies are willing to provide on the front of packs – some have developed particular logos to highlight to customers the products that achieve good nutrition standards:
  - PepsiCo has introduced its ‘Smart Spot’ logo
  - Kraft has introduced its ‘Sensible Solutions’ label
  - Unilever has introduced its ‘My Choice’ label on a third of products

Source: Company Websites
Use of nutrition and health claims

- The EU has introduced strong restrictions/guidelines on the use of health and nutrition claims on products.

- Companies must be able to demonstrate scientific proof of the health contribution/effect of their products to be able to carry a health claim.

- Very few companies publish a commitment to upholding these strict standards worldwide.

- Several claim to operate this way, e.g. PepsiCo plans to establish a policy for health claims globally. Unilever and Danone already have an internal committee focused upon verifying the health claims it makes.

- Companies should adopt this approach globally, in our opinion, to demonstrate their commitment to being honest in the health claims they make.

- Few companies report what percentage of their portfolio qualifies for health claims.
Nutritional information for consumers

- Many companies perform well in this area – this is easy to do and supports marketing efforts.
- They use websites, phone lines and magazines to promote good nutrition, educate their customers about healthy diets and lifestyles.
- Clearly, this also allows them to promote their own most nutritious products.
- However, some companies do not do any of this in emerging markets - why?

Unilever’s Latin American nutrition and wellness magazine

Nestlé Singapore Nutrition site

Source: Company Websites
Support of nutrition education programmes

- Most companies provide some support for nutrition education programmes.
- This tends to be funded through their foundation or goodwill funds.
- Some American companies focus funds solely on US programmes rather than ensuring they reach all customers in all markets.
- It is critical that companies demonstrate their commitment to improving health and nutrition around the world through such programmes.
- No companies report on the health outcomes of these programmes.

Best practice example: Kraft’s ‘Eat to Live Better Program’ in Mexico City

“I’ve lost 40 pounds and my students see that eating right matters.”

Working to improve lives
The Eat to Live Better program promotes healthy eating habits, physical activity and proper hygiene among low-income children through a network of community centers.

How Kraft helps makes a difference
Kraft helped fund the launch of Eat to Live Better to teach educators about nutrition and healthy lifestyles. The teachers, in turn, bring the lessons to children and parents across Mexico City.

Source: Kraft Website
Making healthy products accessible and affordable to all

- Some companies are aware of this and are clearly working hard to position themselves to benefit from the growth available.

- Unilever, Danone and Nestlé are the leaders in this area – they seem to understand the large business opportunity in this area.

- However, in general, companies have not begun to address this issue yet.

  A few have led the way however, providing research and nutritious products at affordable levels.

  Other companies did report that they were looking into the issue also, although had not set out any policies or programmes yet.

  Few companies report of having done promotions of their healthier ranges to low-income consumers.

Obesity in selected developing countries

Source: WHO Data
Best practice example: Grameen Danone Foods

Making Healthy Products Accessible and Affordable to all

- Danone’s venture in Bangladesh attempts to provide health foods affordable for all, and through this help to reduce poverty and health-related disease in the country.

- The joint venture with the ‘Grameen’ organisation is a ‘social’ business which places social and environmental concerns at the heart of its business model.

- Although the project must be profitable, Danone will also judge the success on non-financial criteria. These include:
  - Number of direct and indirect jobs created (milk producers, door to door sellers etc)
  - Improvement to children’s health
  - Protection of the environment

- Danone launched a yoghurt called Shoktidoi in 2006, designed to provide a response to the nutritional needs of the children of Bangladesh at a reasonable price.

- The yoghurt is sold at 5 BDT (=€0.06) for an 80g portion, and so it is hoped it can be bought regularly by even the poorest families.

- Danone is also prioritising job creation in local Bangladeshi communities. Its Bogra plant could employ 50 full-time workers within four years and the company is relying on local micro farms to supply the raw materials to produce Shoktidoi.
Marketing to all consumers: policy

- Most companies have produced a policy on marketing, advertising and promotion to all consumers – except Coca Cola and PepsiCo.
- Kraft has an internal policy document, but does not publish it.
- Danone is in the process of developing an overarching marketing policy.
- However the detail and comprehensiveness of these policies varies greatly.
- US companies generally do not have as detailed policy documents, and these are often not global in scope.
- Many companies do not make it clear that their policy applies to all media communication, including particularly new media such as internet promotions, text messaging etc.
Best Practice Example: Unilever’s Marketing Policy

UNILEVER GLOBAL PRINCIPLES FOR FOOD AND BEVERAGE MARKETING

General Principles

In addition to existing legal requirements and obligations, Unilever will adhere to the following General Principles in all food and beverage Marketing Communications:

1. In line with Unilever's Vitality Mission, we strive to communicate more and more about the Vitality aspects of our brands and products.

2. Copy, sound, and visual presentation of food products should accurately represent any material characteristics advertised and should not mislead consumers concerning any of those characteristics.

3. Nutrition and health benefit claims should have a sound scientific basis.

4. Food and beverage Marketing Communications should not encourage or condone excess consumption and portion sizes should be appropriate to the setting portrayed and the intended consumers.

5. In Marketing Communications representing meals, the foods portrayed should be shown in the context of a balanced diet.

6. Food and beverage Marketing Communications should not undermine and where possible should encourage the promotion of healthy, balanced diets.

7. Food and beverage Marketing Communications should not undermine and where possible should encourage the promotion of a healthy, active lifestyle.

8. Food products not intended to be substitutes for meals should not be represented as such.

Source: Unilever Website
Marketing to children: policy

- Wide variation in the quality and competitiveness of policies governing marketing to children in, for example:
  - The ages to which they apply
  - The media to which they apply
  - Use of fictional character endorsement

- Most companies have signed the recent EU Pledge on children’s marketing, developed as part of the EU platform; Cadbury, Heinz and Premier are the only exceptions.

- Most companies have not, however, pledged to adopt this policy in all markets, which we would like to see them do.

- It seems that much more work needs to be done by all companies (other than Nestlé and Unilever) to publish a best practice, globally applicable policy.

**Best Practice Example: Unilever**

‘Our Food and Beverage Marketing Principles contain additional principles for marketing foods and beverages directed at children. They require that our marketing practices:

- Do not convey misleading messages
- Do not undermine parental influence
- Do not encourage pester power
- Do not suggest time or price pressure
- Do not encourage unhealthy dietary habits
- Do not blur the boundary between promotion and content’

Source: Unilever Website
Engagement with stakeholders

- Several companies do not appear to consult regularly with a full range of stakeholders in the health and nutrition area.

- Often the companies omit to consult their critics, which limits their ability to pick up on emerging concerns.

- Many companies do not report at all on their stakeholder engagement activities.

- No companies explain how they have responded to particular stakeholders’ concerns.

- Nestlé, Heinz, Premier and PepsiCo do not currently report on their activities with stakeholders.
Best practice example: Unilever’s engagement with stakeholders

- Unilever met with 50 stakeholders in a consultation process last year.
- Unilever provide feedback from the meetings and the minutes of the discussions as well.
- Its relationships vary to meet the needs of the different stakeholders - depending on the nature of their interest, the relevance to its core business and the most practical way to meet stakeholders’ specific needs and trends.
- Unilever is now increasingly building partnerships with governmental and non-governmental organisations to help inform their understanding of key issues.

Source: Unilever Website
Influencing public policy

- Emerging best practice in the field of corporate responsibility is for companies to disclose how they interact with policymakers and aim to influence the debate and lawmaking – as described in the report illustrated here.

- Companies did not generally score well in this category.

- Some companies make reference to their involvement with industry bodies.

- However, none disclose the positions they have taken when lobbying governments and international agencies around the world.

Source: SustainAbility website
Employee wellbeing programmes

- Most companies provide some nutrition and wellness programme for employees.
- However the quality and scope of these vary greatly.
- Many do not cover employees globally.
- However, no companies report on the health outcomes of their programmes, nor the benefits to the business.

**Best practice example: Danone**

Danone runs a wellness programme for employees in Europe.

It provides an ‘Active Health’ box to all employees which includes a pedometer, active health passport and practical advice on nutrition and physical activity.

It plans to roll out the programme globally in the next few years.

Danone recently won the BBC Award as London’s Healthiest Workplace.
Best Practice: Key features of company health and wellness programmes

- Providing fresh fruit for employees
- Giving free nutrition and health advice to all employees
- Reimbursement/free membership for gyms and health clubs
- Advice on weight management
- Weight loss clubs
- Education on managing fatigue and stress
- Free occupational health checks
- Education on exercise / healthy cooking
- Providing a pedometer to employees to measure the distance they walk
Support of sports and physical activity programmes

- Many companies provide significant sponsorship to a variety of programmes.
- US companies tend to be US focused in their sponsorship.
- It is very important for companies to demonstrate extensive financial support for such programmes given their emphasis on the importance of the ‘energy out’ side of the calorie equation.
- No companies report on the health outcomes of their programmes.

**Best Practice Example: Kellogg**

*Kellogg Partners with Action for Healthy Kids to Help Schools Improve Students’ Health*

*Schools are receiving much-needed assistance to implement mandated wellness policies through a $275,000 Kellogg's™ Corporate Citizenship Fund grant.*

*Action for Healthy Kids works to decrease the incidence of obesity by improving nutrition and increasing physical activity in schools. The Kellogg grant allows the organization to provide grants of up to $25,000 to help schools implement and evaluate the impact of local wellness policies.*

Source: Kellogg Website
Recommendations
Recommendations to companies (1)

- Articulate the big picture and demonstrate an understanding of the global trends, the risks and opportunities they pose to the business and the health needs of consumers around the world.

- Clearly integrate consideration of health and wellness issues into core business strategy and articulate this clearly to investors and other stakeholders.

- State a clear commitment to act in all markets, by setting several clear overarching objectives backed up with clear targets and timelines. Report annually on progress in achieving these targets.

- Involve stakeholders in developing and reviewing policies and actions - both at Board and operational level, and in all markets. Consult critics proactively and listen to what they have to say.

- Work with policymakers in all markets to support measures that help to address obesity; disclose memberships and lobbying positions.

- Ensure that reporting is directed to different stakeholder groups: investors want different information to health and nutrition professionals or NGOs.
Recommendations to companies (2)

- Set nutrition standards for all key nutrients using international bodies’ guidance and accelerate the reformulation of the whole portfolio according to these standards. Report on progress every year.

- Offer healthy alternatives in as many ranges as possible, and in all markets – not just in the US and Europe. Be clear about how these contribute to business performance.

- Ensure that healthy options are available to the poorest segments of customer base.

- Help customers to control their calorie intake and balance their diet by offering calorie-delimited and a range of portion sizes.

- Provide customers in all markets with full nutritional content information, and easy-to-interpret symbols or logos on the front-of-pack.

- Adopt best-practice marketing policies, for adults and children, for all markets and that cover all media.

- Support customers in living healthy lifestyles and eating healthy diets by providing, in their own language, in many formats, nutrition and lifestyle information, and support sports and physical activity programmes. Report on the health outcomes of these programmes.

- Support staff (to support your customers) by offering employee wellness programmes and training them in the basics of health and nutrition. Report on the health outcomes of these programmes.
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