The Role of the Food Industry in Improving Public Health: “It’s Just Good Business”

Hank Cardello
October 10, 2011

Outline

I. The Forces Derailing Solutions to Obesity
II. Keys to Effecting Positive Change
III. Bridging the Gap
Obesity Now a Serious Problem

2010

Map showing obesity rates across the United States, with different colors representing different percentage ranges.

Cartoon: "Iranian President Ahmadinejad says, 'Launch the cheeseburgers... Overweight American kids threaten U.S. national security.'"
A Losing Battle Despite Significant Effort

- Nothing has worked to reverse obesity rates
  - Consumers haven’t changed
  - Corporations defend their practices
  - Regulations have proven ineffective

3-Way Tug-of-War Hindering Progress
The Way Situation Is Depicted

Motivations Are Different

- Sales
- Market Share
- Profit
- Customer Loyalty
- Reputation
Motivations Are Different

- Sales
- Market Share
- Profit
- Customer loyalty
- Reputation

- The Public Health
- Advocacy

Motivations Are Different

- TASTE
- Value
- Convenience
- Health

- The Public Health
- Advocacy
Personalities Are Different

- “Show Me”
- Practical
- Operators (QSR)
- Strategic (CPG)
- Short term focus

Food Industry Position

- We offer healthier options
- Consumers are responsible for their choices
- “Calorie Balance” is the key
Personalities Are Different

- "Show Me"
- "Practical"
- Operators (QSR)
- Strategic (CPG)
- Short term focus

- Intellectual/conceptual
- "Purists"
- Anti-capitalist sentiment
- Ideas vs. implementers
Advocate/Academic Position

- Food industry is the perpetrator
- Unfettered capitalism is perpetuating obesity
- Entire categories are inherently “bad”
Consumers Not Aligned With Fixing Obesity

Walking Their Talk (26%)

Only ¼ of adults pursuing a healthy lifestyle
- Active baby boomers
- Fitness buffs
- Conscientious moms

Source: Hudson analysis; U.S. Department of Health and Human Services
One-Size-Fits-All Approach Won’t Work

- Walking Their Talk (26%)
- Dazed and Confused (39%)
- “Later” (35%)

Source: Hudson analysis;

Implications

- Relying on consumers to change behavior is an uphill battle
- Regulations will continue to be met with fierce industry resistance
- Industry won’t cooperate unless their bottom lines are considered
Why Would Food Corporations Change?

“It’s just good business”
- Steve Sanger, former CEO
Why Change?

1. Retention of consumer loyalty

Emergence of New Consumer Demanding Responsibility

- Environment
- Wellness
- Regulations
Purchases Used to Influence Companies

“I consider my purchases to be a way to send a message and influence companies’ business practices for the better.”

Source:

Willingness to Switch Brands

“I switched brands at least once last year because the company I purchased from did not act responsibly in my opinion.”

Source:
Support for Regulations

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<th>% Supporting</th>
<th>Soda Tax</th>
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Source: Thomson Reuters April, 2010

Why Change?

1. Retention of consumer loyalty
2. Competitive Advantage
The Reasons for Walmart's Healthy Foods Initiative
Feb 10 2011
By pushing produce and healthier foods, Walmart's “Cuddle Capitalism” could slim us down and bloat the company’s profits.

The Reasons for Walmart’s Healthy Foods Initiative

1. A means to gain access to inner cities
The Reasons for Walmart’s Healthy Foods Initiative

2. A strategy to build the Great Value megabrand

- Reduce sodium by 25%
- Reduce added sugars by 10%
- Remove all trans fats

The Reasons for Walmart’s Healthy Foods Initiative

3. Boxes in Competitors

Low Price/Quality

High Price/Quality
The Reasons for Walmart's Healthy Foods Initiative

3. Boxes in Competitors

Why Change?

1. Retention of consumer loyalty

2. Competitive Advantage

3. Improved profits, sales, market share and/or reputation
Company has revamped entire portfolio to focus entirely on healthier products

- q 1994-2004
  - Ø Stripped out all non-food, plus beer and confectionary businesses

- q 2007
  - Ø Sold Biscuit division to Kraft
  - Ø Purchased Royal Numico

Portfolio Profile
"Healthier" Companies Performing Better
(Earnings as % of Net Sales)

Source: Hudson Institute analysis

Better-For-You Foods: It's Just Good Business
October 13, 2011
Washington, DC

- Can selling better-for-you foods be better for bottom lines?
- Do shareholders benefit when better-for-you products are emphasized?
- Can industry and public health goals align?

Funding provided by the Robert Wood Johnson Foundation
Hudson developing 2 policy proposals to engage industry to:

1. Rapidly reduce calories sold
2. Educate consumers about nutrition/portion control

#1: Don’t tax....incent

(e.g.) Soda tax

- Sales of CSD’s will decline with a tax, BUT...
- Studies indicate negligible impact on obesity rates due to “substitution effect”
- Strong industry resistance
#2: Don’t cut marketing...reward for educating

- Industry ad spending ~ $15 billion
- Pushes to curtail marketing, especially to children
- Opportunity for win-win:
  - Consumer education re: nutrition/portion control
  - Marketers gain incentives for piggy-backing ads

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<th>Incentive System</th>
<th>% of Ad $’s to Educate</th>
<th>Increase in Ad Deductions</th>
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Will Industry Go For This?

They have a lot to gain!

- Avoids harsher regulatory actions
- Positive PR to consumers, analysts and investors
- New opportunities to improve the bottom line
Thank You

For more information on October 13 event:

www.obesity-solutions.org

www.StuffedNation.com