Targets, Strategies & Tactics to Prevent and Control Obesity: Corporate Responsibility?

Hank Cardello
Senior Fellow & Director
Obesity Solutions Initiative
April 6, 2013
Mission

Drive business solutions to obesity
Obesity a Minor Concern \(\frac{1}{4}\) Century Ago
The Issue: High Obesity Rates Persist Despite Numerous Efforts to Reverse the Epidemic
OVERWEIGHT AMERICAN KIDS THREATEN U.S. NATIONAL SECURITY

REPORT

IRANIAN PRESIDENT AHMADINEJAD

...LAUNCH THE CHEESEBURGERS...
3-Way Tug-of-War Hindering Progress
Industry Demonized by Consumer Advocates
Industry Demonized by Consumer Advocates
Industry Demonized by Consumer Advocates
Food & Beverage Retailers Account for $1-1/4 Trillion in Annual Sales

Source: Food Marketing Institute; National Restaurant Association
Traditional Food Industry Position

- We offer healthier options
- Consumers are responsible for their choices
- “Calorie Balance” is the key
Advocate/Academic Position

- Food industry is the perpetrator
- Unfettered capitalism is perpetuating obesity
- Entire categories are inherently “bad”
Advocate/Academic Position

- New efforts positing industry complicity

Neural Correlates of Food Addiction
Business/Marketing Needs

Public Health Needs

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

both A & B
Business/Marketing Needs

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

Public Health Needs

- Reduction in obesity rates
- Reduction in “bad” ingredients (e.g., sugar; saturated fat)
- Increase in “good” ingredients (e.g., whole grains)
Marketers Are Zebras
Public Health Advocates Are Leopards
Tough to Change Marketer’s Stripes
Is There a Business Case for Selling Better-for-you Foods & Beverages?
The Business Case for CPG Companies
BFY Items Drove a Disproportionate Share of 5-Year Sales Growth

Share of Dollar Sales & Growth, 2007 - 2011

- BFY Share of $ Sales: 61.4%
- BFY Share of $ Sales Growth: 71.8%
- Traditional Share of $ Sales: 38.6%
- Traditional Share of $ Sales Growth: 28.2%

Source: Nielsen Food, Drug and Mass Merchandiser sales tracking
Companies with Above Average BFY Sales Recorded Superior Operating Profits

Average Operating Profit Margin

Latest 5 fiscal years

- Above Average % Sales in BFY products (8 companies)
- Below Average % Sales in BFY products (4 companies)

Source: Nielsen Data & Company Annual Reports (Excludes beverage companies due to higher margin structure)
These Same Companies Demonstrated Superior Operating Profit Growth

Growth in Operating Profits

Latest 5 Fiscal Years

% Growth in Operating Profit

- BFY Growth > Traditional Products (7 Companies) [50.6%]
- Traditional Growth > BFY Products (6 Companies) [21.2%]

Source: Nielsen Data & Company Annual Reports
The Business Case for Restaurant Chains
For the 21 Chains, Lower Calorie Items Were the Key Growth Engine Across Both Foods & Beverages

Change in Servings (2011 vs 2006) (000s)

- Total Food & Beverages: -832,563, +2.5%
- Lower Calorie: -472,442, -1.6%
- Traditional: -1,305,005

- Food Only: -850,699, +1.8%
- Lower Calorie: 252,416, +4.2%
- Traditional: -1,103,115

- Beverages Only: 18,136, +0.1%
- Lower Calorie: 220,026, -2.3%
- Traditional: -201,890

Source: NPD Group/Crest
Lower Calorie Items Outperformed Traditional Ones in Overwhelming Majority of Chains

Source: NPD Group/Crest
Critical Same Store Sales ("SSS") Metric Superior for Chains Growing Their Lower Calorie Servings

% Change In Same Store Sales (2011 vs 2006)

Total 21 Chains: -0.8%
Chains With Lower Calorie Servings Growth: 5.5%
Chains With Lower Calorie Servings Declines: -5.5%

Sources: Nations Restaurant News, Trinity Capital, Company Annual Reports
The Bottom Line

Shift to Better-for-you/Lower Calorie foods & beverages necessary for CPG and restaurant growth!
Case Studies
Portfolio Revamped to Focus entirely on BFY Products

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

- **2007**
  - Sold Biscuit division to Kraft
  - Purchased Royal Numico
Portfolio Profile
## Exceptional 5-year Performance

<table>
<thead>
<tr>
<th></th>
<th>% BFY</th>
<th>Sales Growth</th>
<th>Operating Profit Growth</th>
<th>Performance vs. S&amp;P 500</th>
<th>Stock Price Appreciation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Danone</td>
<td>99.6%</td>
<td>+6.9%</td>
<td>+61.4%</td>
<td>+94.9</td>
<td>+83.5%</td>
</tr>
<tr>
<td>15 Company Composite</td>
<td>38.6%</td>
<td>+2.1%</td>
<td>+34.9%</td>
<td>+51.9</td>
<td>+43.5%</td>
</tr>
<tr>
<td>INDEX</td>
<td>258</td>
<td>329</td>
<td>176</td>
<td>183</td>
<td>192</td>
</tr>
</tbody>
</table>
Health Improvement Model

Cumulative* Achievement of GMI Sales
Improved FY05-FY11 & F12-F16 Projection

Key Drivers Nutritional Improvement
FY05-FY11

Over 600 products improved FY05-FY11

- Over 600 products improved FY05-FY11
- 16% in FY05
- 21% in FY06
- 33% in FY07
- 40% in FY08
- 45% in FY09
- 60% in FY10
- 64% in FY11
- 67% in FY12 projected
- 80% in FY16 projected

*On a cumulative basis: products that have been nutritionally improved more than once are counted only one time

Focused on doing the right thing to make our products nutritionally better

- Decreasing Limiters 66%
- Increasing Positives 34%

*includes: serving veg/fruit, antioxidants, probiotic, protein, omega-3, GMI Better-for-You
Reducing Sugar in Cereal

Commitment to further reduce sugar levels

<table>
<thead>
<tr>
<th>Year</th>
<th>Sugar Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>13g</td>
</tr>
<tr>
<td>2008</td>
<td>12g</td>
</tr>
<tr>
<td>2009</td>
<td>11g</td>
</tr>
<tr>
<td>2010</td>
<td>10g</td>
</tr>
<tr>
<td>Goal</td>
<td>≤9g</td>
</tr>
</tbody>
</table>

KEY
- 2007 Sugar level
- 2008 Sugar level
- 2009 Sugar level
- 2010 Sugar level
- Goal Sugar level
Fiber One a $400+ million Brand
Company Leads Peers in Operating Profits

Average Operating Profit Margin

% Operating Profit Margin

18.0%
17.0%
16.0%
15.0%
14.0%
13.0%
12.0%
11.0%
10.0%

General Mills
Campbell’s
Kellogg’s
Smucker’s
Heinz
Danone
Unilever
Nestle

Source: Better-for-you Foods: It’s Just Good Business, Hudson Institute, 2011
The Pepsi Conundrum

Vs.

Quaker Oats

Pepsi
PepsiCo announced plans to grow its “Nutrition” businesses

- “The creation of this Global Nutrition Group is part of our long-term strategy to grow our nutrition businesses from about $10 billion in revenues today to $30 billion by 2020.”
- Indra Nooyi, CEO, October, 2010
Diet Coke passes Pepsi at No. 2 soda in the U.S.
Watershed moment in cola wars as Coke holds top two spots for first time

“The switch marks a sea level change in the industry; Pepsi has held the second position “for decades.”
- John Sicher, editor and publisher, *Beverage Digest.*
March 17, 2011

2010 Market Share

<table>
<thead>
<tr>
<th></th>
<th>Coke</th>
<th>D. Coke</th>
<th>Pepsi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Share</td>
<td>20%</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td>10%</td>
<td>5%</td>
<td>0%</td>
</tr>
</tbody>
</table>
What Happened?

- Analysts cited that PepsiCo took its eye off the ball
- Result: Pumped $600 million back into soda business
Key Lessons

- Be careful what you wish for

- Improving BFY portfolio is a transition, not an "either/or" proposition
Coca-Cola Jumping on Bandwagon
Coca-Cola Has Morphed from a Soda Company to a Beverage Company

1982:
Coca-Cola Has Morphed from a Soda Company to a Beverage Company

1982:

Today:
180 low and no-calorie choices
Coke (and Pepsi) Lowering Their Calorie Footprints

Shows lowering calories not harmful to total liquid sold
Restaurants Slowly Waking Up

Two fresco chicken soft tacos
300 calories
7 g fat • 4 g fiber • 24 g protein
What About the Consumer?
“One-size-fits-all” Approach Ineffective in Changing Consumer Behavior

WELL BEINGS®:
17%

• Most health pro-active
• Market leaders & Influencers
• Highest organic usage
• Use some supplements
• Use many health modalities
• Most Green
“One-size-fits-all” Approach Ineffective in Changing Consumer Behavior

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**FOOD ACTIVES®:**
15%
- Mainstream healthy
- Basics, balance and control
- Desire inherently healthy foods
- Most influenced by physicians
- Least eco-friendly
- Price sensitive

Source: NMI’s 2011 Health and Wellness Trends Database (HWTD)®

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**MAGIC BULLETS®:** 23%
- Conveniently healthy
- Heavy pill usage – supplements OTC, Rx
- Health managers vs. preventers
- Weight managers
- Least likely to cook at home
- Least likely to exercise

Source: NMI’s 2011 Health and Wellness Trends Database (HWTD)®
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**FENCE SITTERS®:** 20%
- ‘Wannabe’ healthy
- Most likely to have kids
- Stressed out, want help and control
- More health kicks but no clear goals
- Receptive to eco-friendly
- Active weight loss
- High social media usage

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EAT, DRINK & BE MERRYS®: 25%
- Least health active
- Unconcerned about prevention
- Focused on taste
- Most price driven
- Younger

Source: NMI’s 2011 Health and Wellness Trends Database (HWTD)®
Obesity Rates Vary Among Segments

<table>
<thead>
<tr>
<th>Segment</th>
<th>BMI</th>
<th>Underweight (6.01-18.49)</th>
<th>Normal (18.5-24.99)</th>
<th>Overweight (25.0-29.99)</th>
<th>Obese (30+)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GP-ALL</td>
<td>28.63</td>
<td>35%</td>
<td>30%</td>
<td>32%</td>
<td>3%</td>
</tr>
<tr>
<td>WELL BEINGS (A)</td>
<td>26.49</td>
<td>21%</td>
<td>33%</td>
<td>44%^BCDE</td>
<td>3%</td>
</tr>
<tr>
<td>FOOD ACTIVES (B)</td>
<td>28.14A</td>
<td>33%A</td>
<td>33%</td>
<td>33%</td>
<td>4%</td>
</tr>
<tr>
<td>MAGIC BULLETS (C)</td>
<td>30.39ABDE</td>
<td>33%</td>
<td>28%</td>
<td>44%^ABDE</td>
<td>3%</td>
</tr>
<tr>
<td>FENCE SITTERS (D)</td>
<td>28.20A</td>
<td>32%A</td>
<td>29%</td>
<td>36%^CE</td>
<td>3%</td>
</tr>
<tr>
<td>EAT, DRINK &amp; BE MERRYS (E)</td>
<td>29.01A</td>
<td>38%A</td>
<td>30%</td>
<td>29%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Capital letter indicates a significant difference between segments at 95%
Most Obese Segments Exercise the Least

(Q78 – Mean # of days per week exercise strenuously or work out for more than 20 minutes)

(Q26 – % agree completely/somewhat)
Exercising makes me feel good about myself

(Q3 – % agree completely/somewhat)
Exercise programs are important in how you maintain a healthy, balanced lifestyle
## “Well Beings” Driving the Move to Calorie Labeling

(Q.30 – HWTD 2011 – % GP-PGS who completely/somewhat agree with the following statements)

<table>
<thead>
<tr>
<th>Statement</th>
<th>WELL BEINGS:</th>
<th>FOOD ACTIVES:</th>
<th>MAGIC BULLETS:</th>
<th>FENCE SITTERS:</th>
<th>EAT, DRINK, &amp; BE MERRYS:</th>
</tr>
</thead>
<tbody>
<tr>
<td>I select foods based on the nutritional facts panel</td>
<td>82%</td>
<td>58%</td>
<td>43%</td>
<td>52%</td>
<td>31%</td>
</tr>
<tr>
<td>I select foods based on the ingredient list</td>
<td>79%</td>
<td>48%</td>
<td>44%</td>
<td>47%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Significantly more than all other segments
Concern Over Artificial Sweeteners On The Rise…
But Not Equally Across Segments

(Q.40 – HWTD 2011 – % GP who completely/somewhat agree with the following statements)

<table>
<thead>
<tr>
<th>Statement</th>
<th>2006</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am concerned about the negative side effects of artificial sweeteners</td>
<td>49%</td>
<td>54%</td>
</tr>
<tr>
<td>I search for all natural non-calorie sweeteners rather than artificial sweeteners</td>
<td>26%</td>
<td>29%</td>
</tr>
</tbody>
</table>

77% WELL BEINGS
53% MAGIC BULLETS
41% EAT, DRINK & BE MERRYS

Source: NMI’s 2011 Health and Wellness Trends Database (HWTD)®

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All Segments Visit McDonald’s

(Q7 – % eat at McDonald’s on a regular and consistent basis)

26% WELL BEINGS (A) 34%A FOOD ACTIVES (B) 33%A MAGIC BULLETS (C) 34%A FENCE SITTERS (D) 38%A EAT, DRINK & BE MERRYS (E)
All Segments Purchase Cookies, Candy, Ice Cream & Soda But Use At Significantly Different Rates

% U.S. Household Penetration Index – Cookies, Candy, Ice Cream, Soda

- Well Beings: 100
- Food Actives: 100
- Magic Bullets: 100
- Fence Sitters: 100
- Eat, Drink & Be Merrys: 100

Total U.S. Volume Index (in pounds) – Cookies, Candy, Ice Cream, Soda

- Well Beings: 77
- Food Actives: 88
- Magic Bullets: 103
- Fence Sitters: 103
- Eat, Drink & Be Merrys: 127

Source: Nielsen Homescan, 52 weeks ending 6/2/12
Implications

- **Pulling calories off the street an effective strategy**
  - Good for business sales & profit growth
  - Reduces consumer exposure to excess calories
  - Automatically decreases “offender” ingredients
    - Sugars
    - Trans/Saturated fats
  - Avoids protracted “War of Attrition” delaying real-world solutions
Otherwise, it will be too late to save this generation of children.
Thank You!

Hcardello@Hudson.org

www.Obesity-Solutions.org