Responsible Investment

Insight releases Proof of the Pudding report:
A benchmark of major food companies' responses to obesity

Insight INVESTMENT
HBOS plc

Introduction

Engaging with food companies on obesity has been one of our priorities since 2004 when the World Health Organisation (WHO) published what is considered to be the definitive assessment of the trends and causes of non-communicable diseases (NCDs) – 'A Global Strategy on Diet, Physical Activity and Health' – known as DPAS. The report focuses on two of the major risks responsible for the heavy and growing global burden of NCDs: unhealthy diet and physical inactivity. This category of disease includes cardiovascular disease, diabetes, cancers and obesity-related conditions, which now account for some 60% of global deaths and almost half (47%) of the global burden of disease. The strategy laid out how a healthier diet, better nutrition and more physical activity can help to prevent and control these diseases and specified roles for WHO Member States, UN agencies, civil society and the private sector.

Our engagement in this area has two separate but related goals:

i) to assess the extent to which different food companies are likely to be affected by changes in government policy and consumer buying patterns as a result of the increasing global awareness of obesity, and to use this knowledge to inform our investment decisions, and;

ii) to encourage companies to do as much as possible to help their customers manage their weight and be healthy and active.

Our previous research

In 2006, Insight teamed up with the Healthy Eating Active Living (HEAL) programme of the International Business Leaders Forum (IBLF) to develop a set of best practice guidelines for food manufacturers, food retailers and food service companies. Following extensive consultation, in January 2007, we published our report entitled **'A Recipe for Success: How food companies can profit from consumer health'**. (See http://www.insightinvestment.com/global/documents/riliterature/367922/recipe_for_succes_report.)

Benchmarking ten of the world's largest food companies

During 2007, we set about benchmarking the performance of ten of the world's largest food companies against this best practice framework with JPMorgan's newly established ESG research team. This is the first time that analysis of this kind has been published. The companies we analysed were, in alphabetical order: Cadbury Schweppes, Coca-Cola, Danone, Heinz, Kelloggs, Kraft, Nestlé, Pepsico, Premier Foods and Unilever.

We first evaluated the quality of the companies' reporting in this area, using their annual reports, corporate responsibility reports and websites. We allocated each company a provisional score and sent this analysis to them, to form the basis of the next stage of our engagement, a face-to-face meeting. Seven of the ten companies agreed to meet; one agreed to discuss the results via email. Two companies were not in a position to meet. Following those meetings, the companies were allocated a revised score for their performance in addressing obesity and related health issues.

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They were then given the opportunity to comment on that analysis and provide any additional information we had missed. In December 2007, we assigned each company a final score and sent its final results with a detailed set of recommendations as to how it might improve both its performance and reporting in this area.

Results

We published our full report of the results in April 2008, entitled '**The Proof of the Pudding: Benchmarking ten of the world's largest food companies' response to obesity and related health concerns**. (This can be downloaded from our website: see link at end of article). The companies were ranked as follows:

1. Danone
2. Unilever
3. Nestlé
4. Kellogg
5. Cadbury Schweppes
6. Kraft
7. Heinz
8. PepsiCo
9. Coca-Cola
10. Premier Foods

We believe that the performance of the leading three companies puts them in the strongest position to profit from shifting consumer trends, grow revenues and penetrate new markets, and also enables them to make a strong case for the effectiveness of voluntary action, obviating the need for government intervention.

Key conclusions

Some of the key conclusions we reached were:

- **A cultural divide exists:** European companies scored best overall; 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.
- **Few have a core strategic commitment to health and wellness:** The three leading European companies appear to have genuinely integrated health and wellness concerns into their core business strategy. Their programmes have global reach, whereas those of the US companies tend to focus only on their home market and not on addressing the rising rates of obesity in the developing world.
- **None of the ten companies has clear objectives and targets to guide their action in this area:** No company has put in place a clear and comprehensive set of objectives and targets to guide its health and wellness activity; it is therefore very difficult for all stakeholders to assess what companies are doing or track their progress.
- **Companies are taking significantly different approaches to product reformulation, and their progress is quite slow:** The leading companies are taking a structured approach to reviewing and reformulating their entire product portfolios, using agreed international nutritional guidelines. Unilever has already reviewed its full 27,000 product portfolio. US companies tend to have a more ad-hoc approach, committing to reducing particular nutrients in particular products or markets, e.g. fat, transfat, salt and sugar.
- **Companies' reporting is still generally weak:** Overall, companies' reporting on the goals and impacts of their overall health and wellness programmes. One area of particular weakness is on reporting on progress they have made in reformulating their products (and the impact that has had on their businesses).
- **A labelling 'free-for-all' prevails at present:** While most companies are moving towards Big 8 'back-of-pack' labelling, a plethora of front-of-pack labels using different formats, and logos, usually based on companies' own nutritional guidelines, is likely to create confusion for consumers.
- **Few companies are helping poorer customers afford healthy food:** Only the three leading companies look to be seriously aiming to ensure that poorer customers, both in developed and emerging markets, are able to afford their healthiest products.
- **Most companies are promoting better nutrition:** Most companies are putting quite a lot of effort into providing their customers with advice and information on nutrition and living healthier lifestyles and many support nutrition education programmes in their key markets. However, this is clearly relatively easy to do and supports the companies' promotion and marketing activities at the same time.
- **Policies on responsible marketing vary substantially:** Not all companies yet publish a comprehensive global policy outlining their approach to marketing to all consumers (as opposed to just children) nor ensure that those policies apply to all media (e.g. new media, such as the internet and text messaging).

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- **Companies' approaches to marketing to children vary enormously:** Neither do all companies publish comprehensive policies guiding marketing to children. While companies' policies have improved a great deal in the last couple of years (due to pressure from US and EU policymakers and NGOs), few have adopted comprehensive policies on a global basis that apply to all media.
- **Support for sports and physical activity is patchy:** While many companies put a great deal of emphasis on the message that consumers need to control their weight as much by exercising as by watching what they eat, not all of them support sports and physical activity programmes in all markets to help their customers to live more active lives.
- **Stakeholder consultation is in its infancy:** Although some companies claim to meet with stakeholders and take their views on board, only Unilever appears to do and report on extensive, structured stakeholder engagement; most do so on an ad-hoc and patchy basis. Moreover, while many companies have advisory boards or panels, they tend to comprise solely nutritionists and medical specialists, and do not include specialists in many other important elements of this agenda (e.g. consumer nutrition education, sports and physical activity or responsible marketing) or NGOs.

Future engagement

In mid 2008, we plan to follow up with each of the ten companies to ask whether they have taken any action relating to the extensive recommendations we made to them about how they could improve their performance and reporting in this area. We will report on their responses later in the year.

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