

Responsible Investment

Assessing the response of global food companies to Insight's 'The Proof of the Pudding' benchmark



Introduction

We began the research for our benchmark of ten of the world's largest food companies in June 2007. This involved both reviewing their published material as well as seeking a meeting with each company to discuss its policies and practices related to obesity. We completed our research in December 2007, at which time we sent each company the results of our analysis, its ranking and a set of tailored recommendations as to how it might improve its performance and reporting on its approach to addressing the global obesity crisis and promoting health and wellness among its customers and the wider public. For more detail, see our previous briefing at http://www.insightinvestment.com/global/documents/riliterature/821056/Insight_releases_PotP_report.

We published the findings of our work in April 2008, in a report entitled 'The Proof of the Pudding'. See http://www.insightinvestment.com/global/documents/riliterature/367922/proof_of_the_pudding_pres.

Follow-up engagement

We contacted the companies in June this year, six months after they had received our feedback, to ask for a follow-up meeting or discussion. Nine of the ten companies obliged, with only Premier Foods failing to confirm a meeting. This is particularly discouraging given that the company was placed last in our benchmark and had engaged very little with the process initially. On the other hand, we were particularly pleased to be able to have direct discussions with Kraft, Heinz and Cadbury, which had not been possible, for various reasons explained below, during the research process last summer.

Overall, the feedback was encouraging. The companies reported that:

- The benchmarking process had been useful. They said that it had provided them with a better understanding of how they are seen 'from the outside'. However, some, for various reasons, seemed not yet to have used our analysis to review or inform their health and wellness activities (or at least were reluctant to admit that).
- The score we had allocated for their performance was broadly accurate.
- They recognised a need to improve their communication to investors and other stakeholders about how they address obesity and promote health and wellness. Overall, they seemed to feel that their commitments and programmes were adequate or better, but it was their reporting that was letting them down.

Individual company's responses

The purpose of our recent engagement was not to repeat the benchmarking analysis but rather to get an understanding of how the companies were responding to it and to hear how they had used it. Most companies appear to have made good strides in the last several months in continuing to develop their policies and programmes, with many building on our recommendations.

Here, we summarise each company's response and highlight any new initiatives and commitments they have made in the past several months:

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Danone (Ranked 1st): At the request of the company, we presented the results of the benchmark, via conference call, to a large group of Danone staff around the world who work on the health and wellness agenda. We provided a summary of where Danone had done well and where it could improve even further, which it is working on – particularly encouraging given how good its performance and positioning already is.

Unilever (Ranked 2nd): The company provided an extensive written summary of its recent activities and its response to the recommendations Insight made in our benchmarking analysis. It noted that it has significantly enhanced its coverage of health and wellness issues in its recent public reporting and on its websites, and has further plans to improve its communication further via its website. It is also considering several of our other recommendations, specifically publishing more information about its research on obesity trends in all of its markets, providing more structured reporting on its progress in meeting reformulation targets, considering the introduction of a more varied range of portion sizes and disclosing more about its public policy activity.

Nestle (Ranked 3rd): The company continues to work to place health and wellness at the heart of its strategy. It has reviewed our recommendations and taken some of them into account in the development of its programmes to address obesity, health and wellness. It is focusing particularly on improving its communication and reporting on these issues over the next one to two years, an area we had flagged for improvement.

Kellogg (Ranked 4th): The company provided us a written summary of its recent activities relating to health and wellness. However, this duplicated a lot of what we had already discussed, and its commentary did not relate to our specific recommendations or explain whether the changes it outlined had been prompted at all by our engagement. As a result, it is unclear whether the company has used our analysis to review its health and wellness work or has taken any of our recommendations on board.

Cadbury (Ranked 5th): When we were conducting the benchmarking analysis last summer, the company was in the process of de-merging its confectionery and beverages businesses; it was therefore inappropriate to meet at that time. Having completed that de-merger and made significant headway in restructuring the Cadbury plc business that remains listed in the UK, we had a useful introductory meeting and follow-up correspondence with the staff that now have responsibility for the company's health and wellness agenda. Cadbury stated that it had reviewed our analysis and noted our recommendations. It reiterated that it intends to place a high priority on this agenda and will continue to follow its comprehensive '12 point action plan' put in place several years ago, but did not outline any new plans or commitments (*per se*).

Kraft (Ranked 6th): We had been unable to meet directly with the company when we first conducted our benchmarking analysis, but instead corresponded by email. We were therefore pleased to be able to meet with the two senior directors with responsibility for the company's health and wellness agenda. During the meeting, we reviewed the rationale for the benchmark, and Kraft explained its activities in a number of areas. We are continuing the dialogue via email, with a view to encouraging the company to take on board our recommendations for improvement.

Heinz (Ranked 7th): Heinz was another company with which we had not been able to have direct contact when we conducted the benchmark. We were therefore pleased to be able to speak to several staff involved in Heinz's health and wellbeing programme via conference call. The company has clearly strengthened its focus on this agenda in recent months and significantly improved its communication in this area, both through its annual report and website. The company believes it is fundamentally well-positioned on this agenda, given its product portfolio, but recognises that it has more to do to develop and implement a health and wellness programme and communicate that more actively. Following the call, we reiterated to the company the areas in which we think it can improve and hope the company will take this into consideration in the development of its strategy and plans in this area.

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PepsiCo (Ranked 8th): This company has been the most proactive of all to respond to our analysis and the challenges that obesity presents to its global business. The health and wellness agenda is being driven into the heart of the business, with strong support from the chief executive. PepsiCo has substantially increased its focus and resources dedicated to addressing health and wellness issues. Several senior staff are heavily engaged with developing new policies and plans to transform the company's portfolio, communications, community engagement and reporting. It has recognised a need to focus on what more it can do to promote healthy diets and lifestyles in emerging markets, with respect both to obesity and under-nutrition.

Coca-Cola (Ranked 9th): We had a call with new staff who have taken over responsibility for the company's health and wellness agenda. Coca Cola appears to have made strides in several areas since we met initially. It is developing a new platform through which to integrate health and wellness issues into its business planning from 2009. It continues to make acquisitions to strengthen its market position in healthier products, and to invest in R&D to improve the health profile of its products. It has, in part in response to our analysis, published a global policy on nutrition labelling. In addition, it has published a new global policy on marketing to children and has committed, along with many other large food and beverage companies, to monitor and publish an assessment of compliance with that policy. The company is considering how it can improve its dialogue with stakeholders in all markets, especially its critics. It has also reviewed its employee health and wellness programmes, and its support of sports and physical activity programmes around the world. It is working to improve both, and has made a commitment to support sports programmes in every country in the world in which it operates by 2015.

Conclusion

We are broadly pleased with the way that nine of the ten companies have responded to our benchmarking analysis and engagement. Most appear to have used it to review their policies and programmes to address obesity and promote health and wellness, and to identify ways in which they can improve both their performance and reporting. We hope that these companies will continue to make significant strides and thus demonstrate to investors, policymakers and others that they are fully aware of the business risks of not addressing obesity and are committed to doing as much as possible to combat it – both individually and collectively.

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