

The conduct of the 25 largest agri-food businesses in the world: Responsible or opportunists

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This presentation

Three sections:

- ***Background:*** rapid analysis of globally-rising NCDs and drivers
- ***The study:*** How food companies have responded to the WHO's Global Strategy on Diet, Physical Activity and Health
- ***Reaction and conclusions:*** How companies have responded, how the process can be developed



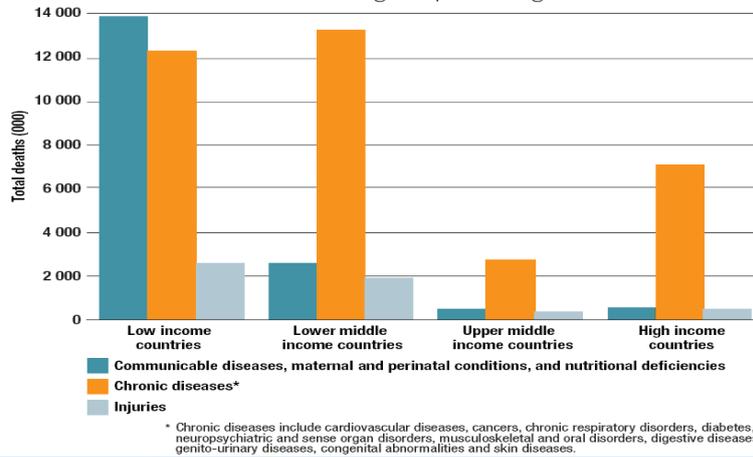
Cette présentation a été effectuée le 24 octobre 2006, au cours du Symposium "Prévenir l'obésité : les ingrédients d'un plan gouvernemental fructueux" dans le cadre des Journées annuelles de santé publique (JASP) 2006. L'ensemble des présentations est disponible sur le site Web des JASP, à l'adresse <http://www.inspq.qc.ca/jasp>.

Background

What's the problem?

- **Rising *toll of NCDs* – including most visibly obesity and diabetes**
- **Growing *economic burden*: healthcare**
- **Creation of *health inequalities***
- **The *spread of 'Western' diets* and companies to the developing world**

Projected deaths by major cause and World Bank income group, all ages, 2005



WHO (2005) Preventing Chronic Diseases: a vital investment. Overview. Geneva: WHO p.4

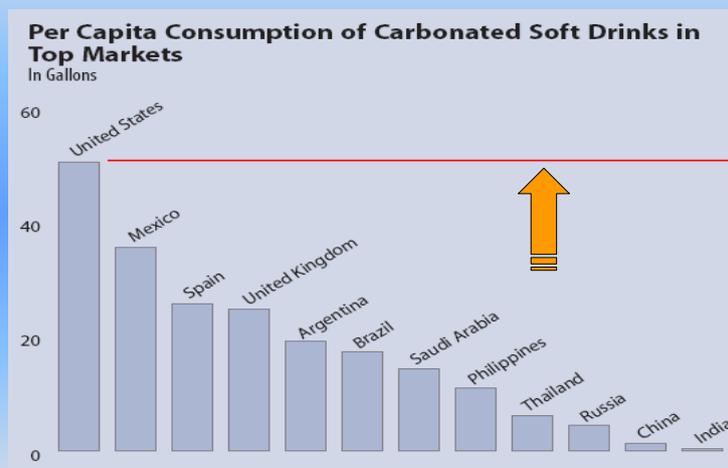
USA 2 out of 3 overweight, 1 out of 3 obese
But spreading world-wide



What is driving this situation?

- **DIET TRANSITION:**
 - *Shift from simple to processed foods*
 - *Rise of fat production and consumption*
 - *Rise of soft drinks*
- **PHYSICAL ACTIVITY TRANSITION:**
 - *Rise of cars*
 - *Decline in walking – and everyday activity*
- **CULTURAL TRANSITION:**
 - *Supermarketisation and food culture*
 - *Lifestyle*
 - *Advertising*

Example of dietary transition 1: soft drinks – will others follow USA?



Source: PepsiCo

Example of dietary transition 2: fat overproduced

Trends in the dietary supply of fat

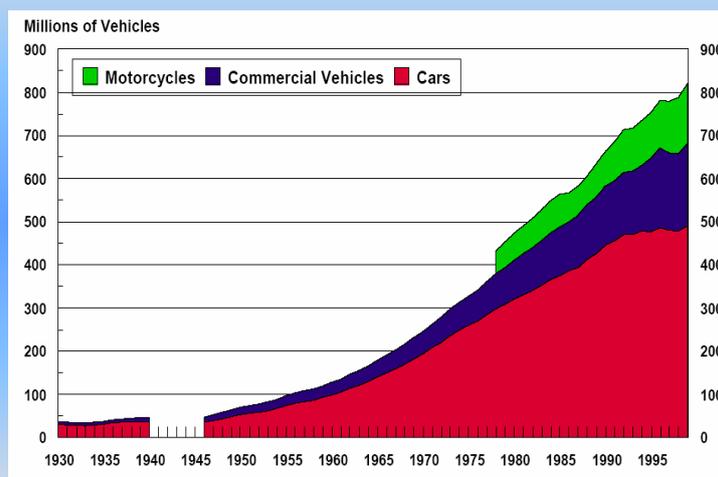
Region	Supply of fat (g per capita per day)				Change between 1967-1969 and 1997-1999
	1967-1969	1977-1979	1987-1989	1997-1999	
World	53	57	67	73	20
North Africa	44	58	65	64	20
Sub-Saharan Africa ^a	41	43	41	45	4
North America	117	125	138	143	26
Latin America and the Caribbean	54	65	73	79	25
China	24	27	48	79	55
East and South-East Asia	28	32	44	52	24
South Asia	29	32	39	45	16
European Community	117	129	143	149	31
Eastern Europe	90	111	116	104	14
Near East	51	62	73	70	19
Oceania	102	102	113	113	11

^a Excludes South Africa

WHO/FAO (2003) Diet, Nutrition and the Prevention of Chronic Diseases. WHO TR 916 p.18

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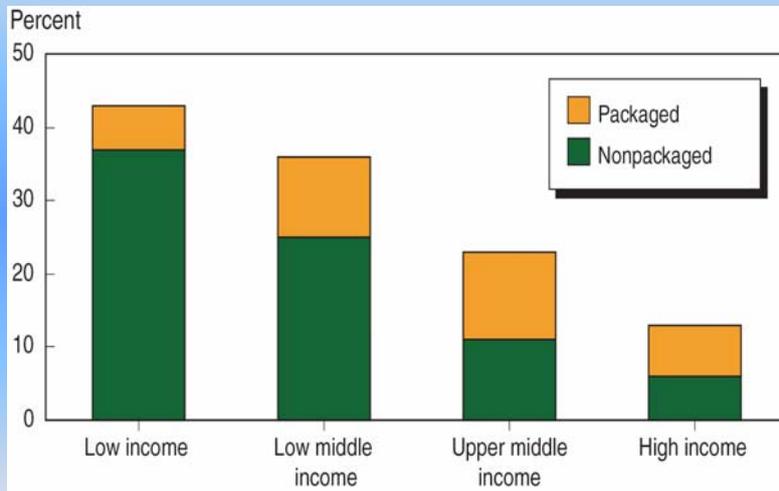
Example of physical inactivity drivers: motorised transport 1930-2000



Michael P Walsh, Motor Vehicle Pollution Control, Paper to China Fuel Economy Workshop, Hong Kong, December 13, 2004, <http://www.walshcarlines.com/china/Applying%20The%20Lessons%20To%20China%20MOVE%20.pdf>

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As economies develop, consumer expenditure shifts from non-packaged food to packaged food



Source: Euromonitor, 2003
<http://www.euromonitor.com>

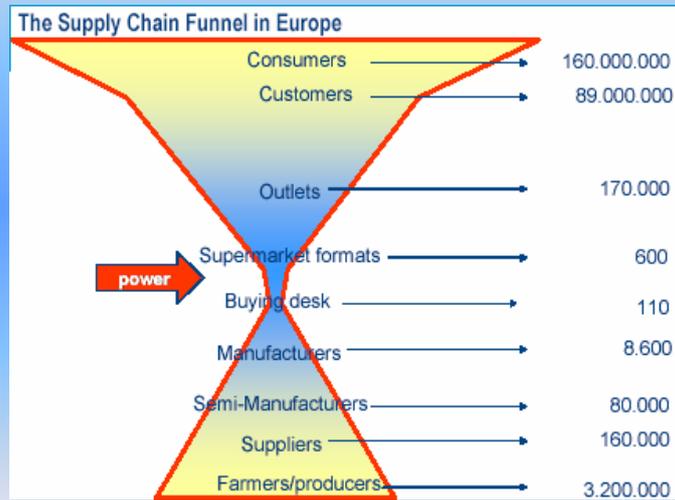
As 'globalisation' increases, 'supermarketisation' increases

Table 1—Share of food sales for retailers in selected international markets, 2002

Retail outlets	United States	Western Europe	Latin America	Japan	Indonesia	Africa and Middle East	World
<i>Percent sales</i>							
Supermarkets/hypermarkets	62.1	55.9	47.7	58.0	29.2	36.5	52.4
Independent food stores	10.0	10.0	33.0	11.3	51.1	27.1	17.8
Convenience stores	7.5	3.8	3.1	18.3	4.8	10.0	7.5
Standard convenience stores	5.7	2.5	1.8	18.2	4.8	9.5	6.4
Petrol/gas/service stations	1.8	1.2	1.3	0.1	0.0	0.5	1.1
Confectionery specialists	0.5	2.0	1.7	0.3	0.1	1.3	1.2
Internet sales	0.2	0.1	0.1	0.4	0.0	0.0	0.2
Chemists/drugstores	0.2	0.3	0.2	0.4	0.2	0.3	0.3
Home delivery	0.4	0.2	0.0	0.0	0.0	0.0	0.1
Discounters	7.4	10.3	0.2	2.2	2.7	6.2	5.7
Other	12.0	17.5	14.0	9.0	11.9	18.6	14.9
Total	100	100	100	100	100	100	100

Source: Euromonitor, 2004.

Power shift in the supply chain: Retailers, not farmers, dominate supply



Source: J-PGrievink, Cap Gemini, OECD 2003

My local Tesco, London



Tesco - in Bangkok



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Yum Brands (KFC, Pizza Hut)

World's largest restaurant company: 34,000 restaurants, 100 countries



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London

The City University study

Common national responses

- **Countries vary in responses but most stress**
 - *‘The informed consumer in marketplace’*
 - *National cultural traditions (e.g. Mediterranean diet)*
- **Reliance on ‘Soft’ responses**
 - *health education/ exhortation – eat less, do more*
 - *labelling, information*
- **Failure of public health pushes costs to healthcare but..**
 - *This will be expensive - and so far ineffective!*
 - *It is not a good model for developing countries*
- **Obesity crisis is showing this mix is NOT WORKING**
 - *New willingness to think more radically*
 - *WHO strategy is the beginning of the global response*

Our motives for the study

- We wanted to help the WHO see whether companies were responding to the Global Strategy on Diet, Physical Activity and Health (DPAS) agenda
- What were the biggest companies doing or not doing?
- Our aim was to hold a mirror to the Big Food sector
 - We asked: how does the sector see itself through its self reporting?
- We wanted to achieve baseline information for further research

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Specific context: companies & WHO

- Beginning of finance houses' interest: J P Morgan reports (2003 & 2006)
 - *show the impact of obesity consciousness on food manufacturing*
 - *show potential impact of investors in influencing company behaviour.*
- WHO DPAS at the WHA 2004 asked big food companies to change their products and their marketing

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Methodology (1)

- **The team was: City University, Insight Investment and Horizons FS**
- **We chose global top companies from 3 dominant sectors (by turnover):**
 - *Manufacturing (top 10)*
 - *Retail (top 10)*
 - *Foodservice (top 5 = 2 contract & 3 quickservice)*
- **We produced profiles of companies of what companies report they do**

Methodology (2)

- **We developed a public health template based on DPAS with 14 issues in 36 sub-headings**
- **The research was done on a ‘systematised’ basis**
- **We were very generous in recording company action**
- **Financial year 2004-05**

Methodology (3)

- We created company profiles
- These used the companies' own reports, websites, etc
- No other direct contact with companies
- No use of external reports or other sources
- Used headquarters only – not subsidiaries
- Some companies were in 200+ countries!

Quick summary of City Study

- Overall, the big food companies appear to be making a limited response to DPAS
- Sectors vary (retail is the weakest):
 - *Some are not engaged*
 - *Some partially engaged*
 - *No-one is fully engaged*
- Our recommendations
 - *Company reporting has got to improve*
 - *Company products have to change, too*

R&D and Mergers & Acquisitions

- **Most companies provided little information on the amount of investment made in R&D**
- **Only 6 of 25 provide any figures on R&D spending: Cadbury Schweppes, Danone, Kraft, Nestlé, Unilever and Yum!**
- **5 of those 6 corps are in food manufacturing**
- **Any M&A activity that is happening is not reported as being driven by health concerns**

Spending on marketing, advertising and sponsorship

- **Only 12 companies provided spending figures, enabling calculation of what proportion this was in their turnover**
- **These were: Cadbury Schweppes (1.1%), Coca-Cola (10.5%), Danone (5.3%), Kraft (5.1%), PepsiCo (5.8%), Tyson (1.8%), Unilever (13.6%), Ahold (0.7%), Kroger (1%), Wal-Mart (0.4%), McDonald's (3.8%).**
- **Only 1 company - McDonald's – provided any disaggregated information in this general area.**

Company stance on corporate responsibility (1)

- **23 of 25 companies had stated CR reports and /or 'general statements of purpose and values' related to non-financial company goals**
- **Despite this, companies as a whole did not appear to be taking health as a core consideration...**

CR (2)

- **11 of the 25 companies make a reference to health in these CSR / values statements:**
 - *Danone, Kraft, PepsiCo, Unilever, Ahold, Carrefour, Kroger, Tesco, Compass, McDonald's, Yum!*
- **4 manufacturers, 3 retailers, and 3 of 5 foodservice companies referred to health in their statements of purpose and values or CSRs**

Stance on diet, nutrition and physical activity (1)

- **17 of 25 companies made a statement or statements of some kind on diet, physical activity and health: 8 manufacturers, 4 retailers, 5 foodservice (all)**
- **Only 4 companies reported KPIs: Kraft, Unilever, Tesco and Sodexo. (KPI=key performance indicator)**
- **The low number of KPIs suggests that companies are making general statements without much commitment.**

Stance on diet, nutrition and physical activity (2)

- **6 of 25 companies report that they have a Board member or senior personnel responsible for health-related matters**
- **Only 1 company (Kraft) scored positively on all three issues reported here**

Policy commitments on physical activity, obesity, children and 'healthy' product ranges (1)

- **11 of 25 companies make policy or reported commitments on physical activity.**
- **Food manufacturers are more engaged with the physical activity issues (7 of 10).**
- **11 of 25 companies had policy statements on children's food: six manufacturers, two retailers and three foodservice.**
- **11 of 25 companies indicated a policy commitment to having a 'healthier' range of products.**

Policy commitments on PA, children, obesity & 'healthy' range (2)

- **Only 1 retailer made a statement on physical activity**
- **Only 2 foodservice reported policy and action**
- **11 of 25 companies have policy statements on obesity (50% manufacturers 30% retailers, 60% foodservice)**

Policies on marketing, advertising, promotion and sponsorship (1)

- **Only 4 of 25 companies had any policies on advertising, all manufacturers:**
 - *Cadbury Schweppes, Danone, Nestlé and Unilever*
- **Only 6 companies had policies specifically on children (despite ‘ready-made’ CARU (US) self regulatory guidelines)**

Policies on marketing, advertising, promotion and sponsorship (2)

- **Only 4 companies gave stated support to voluntary codes**
- **Both retailers and foodservice score very poorly across the board on marketing and advertising and vending**

Position on product formulation and sizing

- **Only 4 companies reported action on fat: 2 manufacturers, 2 quickservice**
- **Only 2 reported action on portion size: Kraft and McDonald's**
- **Retailers performed particularly poorly but one (Ahold) was acting on 3 of the 5 'hot' issues we looked at (besides fat / portion size)**

Labelling, product information and nutrition claims (1)

- **11 of 25 companies reported positions on on-product labelling:**
 - *Cadbury Schweppes, Coca-Cola, Kraft, Nestlé, PepsiCo, Unilever, Ahold, Carrefour, Ito-Yokado, Metro and Tesco*
- **No foodservice company had on-product labelling policy**

Labelling, product information and nutrition claims (2)

- **11 of 25 companies provided other sources of information.**
 - 5 manufacturers: *Cadbury Schweppes, ConAgra, Danone, Nestlé and Unilever*
 - 3 retailers: *Ahold, Ito-Yokado and Kroger*
 - 3 foodservice companies: *Burger King, McDonald's and Yum!*

Labelling, product information and nutrition claims (3)

- **Only four companies provide information about nutrition claims:**
 - *Danone, Kraft, Unilever and McDonald's*

Company promotion to its own staff and community on healthy lifestyles and physical activity

- **10 out of 25 companies reported that they have staff health programmes**
- **The five manufacturers were Cadbury Schweppes, Coca-Cola, ConAgra, Kraft and Nestlé**
- **The two retailers were Metro and Rewe**
- **The three foodservice companies were Compass and McDonald's and Sodexo**

City study Summary (1)

- **A minority of Big Food companies report they are engaging with the full (population) health agenda**
- **Of sectors, food manufacturers appear to be more fully engaged, with foodservice less so and retailers trailing far behind**
- **Listed and privately owned companies differ in their degree of openness and reporting**

City study summary (2)

- **Most Boards of Directors do not seem to be giving health leadership**
- **Some Companies that do have Board or high level health leadership appear to be doing more than those which have none**
- **The business strategy re-think that JPMorgan detected has further to go**

City study summary (3)

- **Overall, there is very weak reporting by companies in their annual reports and other company sources**
- **This was a baseline study**
- **The methodology is now tested but a future study requires company engagement in the process**

Reactions and developments

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Company reactions

- **Big discussion among companies**
- **Some companies auditing themselves using our approach**
- **Company worries about being sued is driving change in North America, reputation in Europe**
- **Shareholder audits is focusing minds(JP Morgan 2003/06)**
- **But.. will companies do more than see health as a 'niche' for new products?**

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Self-regulation or regulation?: A Code of Health Conduct?

- **International Business Leaders Forum + Insight Investment process- 18 of 25 companies**
- **2006 Draft code of conduct / Framework:**
 - http://www.insightinvestment.com/documents/responsibility/Press/framework_consumer_health_and_obesity.asp

Movement at regional and nation- state level

- **Ineffectiveness in current approaches driving willingness to think more radically**
- **WHO Europe Ministerial Istanbul November 2006**
- **EU still preferring voluntary tri-partite approach: Round table on Diet & Physical Activity**
- **UK – one example - considering ban on advertising**

Taking this issue to society

- **International interest: media coverage**
- **NGOs/Public health needs to do health audits:**
 - *Example is UK National Consumer Council health audits of top 10 retailers 2004, 2005*
- **Parents the key drivers? Child health?**
- **Need for global effort – WHO, IOTF – much bigger, imaginative effort – *with teeth***

Looking ahead

- **Research agenda: more mapping is needed at national and regional level; repeat of this study in two years, with revised methodology**
- **Governance agenda: there needs to be a debate about what we want companies to do to help improve public health**
- **Political agenda: public health movement needs keep up pressure on companies and talk to them**

Thanks!
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