Hudson Institute

Lower-Calorie Foods and Beverages Drive Healthy Weight Commitment Foundation Companies' Sales Growth

Interim Report

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Summary

The Centers for Disease Control and Prevention (CDC) estimates that more than 35 percent of adults and nearly 18 percent of children in the United States are obese. Governments at all levels have taken action to address this national epidemic through efforts to make schools and communities healthier for children and families. Business leaders are stepping up as well, by participating in initiatives like the Healthy Weight Commitment Foundation (HWCF), a CEO-led organization that aims to help reduce obesity – especially childhood obesity – by 2015.

Hudson Institute, a nonpartisan policy research organization, has completed two landmark studies covering consumer packaged goods (CPG) food companies and restaurant chains which have demonstrated the positive impact of lower-calorie and/or better-for-you (BFY) foods and beverages on overall sales growth. The CPG study, titled "Better-For-You Foods: It's Just Good Business," found that between 2006 and 2011, the 15 leading CPG companies that grew their lower-calorie/BFY foods and beverages enjoyed superior sales growth, operating profits and operating profit growth.[1] Funded by the Robert Wood Johnson Foundation, that study proved that selling more lower-calorie/BFY foods and beverages is just good business.

The current research builds on Hudson Institute's previous efforts by examining whether CPG food companies who are members of the HWCF are increasing their sales of lower-calorie items and how that trend is influencing total company sales. Increasing sales of lower-calorie products – in absolute terms and relative to higher-calorie products – is an indicator that companies are shifting their product portfolios toward foods and beverages containing fewer calories.

This interim report provides an examination of aggregate data for all CPG member companies of the HWCF.

Highlights

- Lower-calorie products drove 82 percent of the sales growth among the HWCF member CPG companies studied, over four times the rate of higher-calorie products.
- Lower-calorie sales increased by over $1.25 billion, compared to less than $300 million for higher-calorie products.
- Ten of the 15 new products attaining annual sales of at least $50 million were lower-calorie items.

Background

Reducing obesity is the foremost public health challenge facing our nation today. Over the past two decades, obesity rates have grown to epidemic proportions that threaten our economic and national security. The CDC has found that more than two-thirds of U.S. adults and nearly one-third of children and adolescents are overweight or obese.[2-3] Thus, there has been growing momentum among policy-makers at all levels to pass and implement laws to improve school nutrition, make communities safer for physical activity, and improve access to affordable healthy foods.

Many have suggested that the food industry should help to solve the obesity crisis by making the U.S. food supply more nutritious and by reducing the number of calories it sells. Consumer packaged goods (CPG) companies have committed to reducing calories through a variety of pledges, including the Healthy Weight Commitment Foundation's promise to eliminate 1.5 trillion calories by 2015, yet some in the public health community question whether this commitment is truly a priority for these companies. Largely undisputed, however, is the direct impact that the $1.25 trillion packaged food and restaurant industries can have on improving consumption of lower-calorie and better-for-you (BFY) foods and beverages if fully engaged in the fight to reverse obesity.

The Public Health Case for Calorie Reduction

At the most basic level, overweight and obesity are the result of a caloric imbalance: too few calories expended for the amount of calories consumed.[4-5] In 2010, our aggregate food supply provided 2,534 calories per person per day, 458 more than in 1970.[6]

Thus, it is not surprising that organizations such as the Institute of Medicine (IOM) have called for food companies to substantially reduce the number of calories served to children and their families.[7] In its report titled "Accelerating Progress in Obesity Prevention: Solving the Weight of the Nation," the IOM highlighted that people are consuming more calories, in part, because portion sizes have increased; calorie-dense foods such as french fries are more available; and the food industry has aggressively marketed high-calorie products.[7]

To date, proposed public health policy interventions aimed at the food industry have focused primarily on changing consumption habits by mandating calorie labeling, banning oversized beverages or taxing sugar-sweetened drinks. Each of these approaches contains elements that automatically guarantee industry resistance - either because it raises costs or induces declines in sales of highly profitable items. None of these approaches gives consideration to the success metrics that industry executives are responsible for when making decisions on behalf of their companies and shareholders.

While reducing consumption of more highly caloric foods and beverages is a desirable outcome from a public health and nutritional policy perspective, in most cases consideration has not been given to the impact these measures have on a company's ability to grow its sales.

Current Industry Calorie-Reduction Efforts

While food industry proponents are understandably concerned about how such policies will impact their business, several food and beverage companies are now participating in self-regulatory initiatives such as the HWCF; its member companies collectively have pledged to remove 1.5 trillion calories from the marketplace by 2015.[8]

The aforementioned 2011 Hudson Institute study sought to determine if CPG food companies could achieve superior business performance by selling more lower-calorie/better-for-you products. Researchers examined Nielsen sales data covering grocery stores, drug stores, and mass merchandisers; financial metrics, such as operating income and operating income margin; and company reputation and favorability rankings to analyze whether or not sales of lower-calorie/BFY foods affect key business performance measures. It showed that CPG companies with a higher proportion of their sales in lower-calorie/BFY foods demonstrated superior sales growth, operating margins, operating profit growth and reputation.

Research Overview

The overarching goal of this research was to test whether lower-calorie products sold by HWCF member CPG companies grew over the 5-year evaluation period, and the impact of those sales on total company sales.

To address this objective, we utilized Nielsen ScanTrack data to enable analysis of the dollar sales for products sold by the CPG members of the HWCF. The CPG companies participating in the HWCF account for nearly 25 percent of calories consumed in the United States and approximately $97 billion in annual U.S. food and beverage sales in grocery, drug and mass merchandiser outlets. Consequently, we conducted this industry-focused research study to determine whether there was progress in selling more lower-calorie items.

Methodology

Data Source

Our analysis relied on purchased ScanTrack data from the A.C. Nielsen Company. One of two major sources of CPG food and beverage industry data, Nielsen ScanTrack captures sales data on point-of-sale purchases through UPC codes at food stores with more than $2 million in sales, drug stores with more than $1 million in sales and in mass merchandisers. ScanTrack data for the time periods evaluated in this study does not include some key retailers and channels, including Walmart, Dollar Stores, and warehouse clubs.[9]

The Nielsen sales data was utilized for those CPG companies evaluated in the 2011 Hudson Institute CPG study. This new study revisited that data for companies that were part of both studies and re-categorized products according to the lower-calorie criteria (see below). The 5-year period evaluated analyzed two end-points: the 12-month period ending April 2007, and the 12-month period ending April 2011. For HWCF companies that were not included in the 2011 study, Nielsen provided 12-month data for the periods ending March 2009 and March 2013 as it maintains 5-year data on a rolling basis. It should be noted that the time frame covered in this report does not perfectly match the first progress report period for HWCF companies, which runs from 2007 through 2012.

Company Selection

All CPG companies that are members of the HWCF were included in this study. Many of these companies were also part of the 2011 Hudson Institute study, so sales data for each of their products was already available. Companies that were part of both studies include Campbell Soup Company, The Coca-Cola Company, ConAgra Foods, General Mills, Inc., Kellogg Company, Kraft Foods, Inc. (now Kraft and Mondelez International), Nestlé USA, PepsiCo, Inc., Sara Lee Corp. (now Hillshire Brands), The J.M. Smucker Company and Unilever. Member companies added that were not part of the original study include: Bumble Bee Foods, LLC, The Hershey Company, Mars, Incorporated, McCormick & Company, Inc. and Ralston Foods/Post Foods, LLC.

Lower-Calorie Product Criteria and Categorization Process

A two-tiered product categorization system was developed for each product by breaking down the proprietary Nielsen sales data into two discrete categories:

- Lower-Calorie
- Higher-Calorie

Guidance for the categorization of lower-calorie products was drawn from two sources: (1) calorie guidelines established

by the CFBAI (Children's Food & Beverage Advertising Initiative) under its Uniform Nutrition Criteria, including its cold cereal sugar limits,[10] and (2) calorie criteria developed in conjunction with the University of Minnesota Nutrition Coordination Center (NCC)[11] for a previous Hudson Institute study on restaurant chains titled "Lower-Calorie Foods: It's Just Good Business."[12] No lower-calorie product classification exceeded the calorie limits of the CFBAI standards, with the exception of the dessert criteria, which was consistent with the NCC criteria. Any product not meeting the lower-calorie criteria was classified as a higher-calorie product.

Figures 1 and 2 illustrate the "lower-calorie" thresholds for each product category.

Calorie Guidelines for Study		
Product Type	**Classification Criteria**	**CFBAI Guidelines**
	Calories/Serving	**Calories/Serving**
RTE Cereal – Kid/Adult	≤150	150
Hot Cereal	≤150	NA
Pancake/Biscuit Mixes/Muffins	≤150	150-200
Toaster Waffles/Pop Tarts	≤150	150-200
Soups	≤150	200
Meal/Pasta Sauces	≤100	200
Main Dishes	≤350	350
Complete Meals	≤500	600
Side Dishes	≤150	170
Fruit	≤150	150
Vegetables	≤150	150
Condiments/Coffee Additives	≤50	NA
Dressings	≤100	NA
Complete Breakfast Bars/Drinks	≤250	NA
Plain Pasta	≤250	NA

Figure 1

Calorie Content Guidelines for Study		
Product Type	**Classification Criteria**	**CFBAI**
	Calories/Serving	**Calories/Serving**
Spreads/Dips	≤50	220
Snacks (Popcorn/Crackers/Pretzels)	≤150	NA
Gum	≤50	NA
Candy	≤125	NA
Chips	≤125	150
Nuts	≤150	200
Snack Bars	≤150	NA
Juice/Juice Beverages	≤50	160
Coffee/Tea/CSDs	≤50	NA
Breads and Pastries	≤150	150
Milk	Skim, 1%	150
Yogurt	≤170	170
Cheese	≤80	80
Desserts	≤150	120
Cookies	≤125	NA
Fruit Snacks	≤125	NA

Figure 2

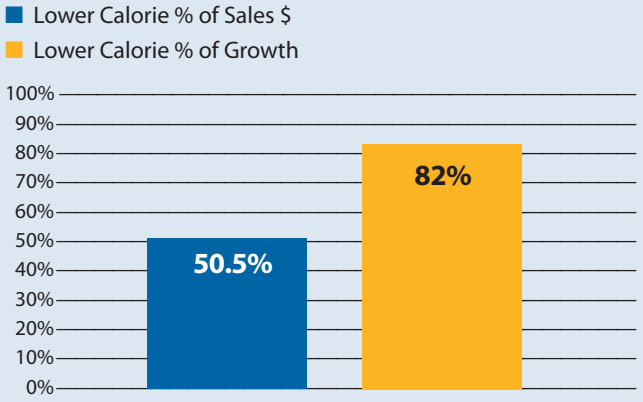
As part of the classification process, nutrition information on the product packaging or from the company's web site was reviewed for each product.[13] If caloric data was unavailable from either of these sources, third-party calorie information web sites, such as www.myfitnesspal.com and www.caloriecount.about.com, were consulted.

Findings

Our study found that lower-calorie items now account for just over one-half the dollar sales of CPG members of the HWCF. Of note, these products drove a disproportionate share of overall sales growth: 82 percent.

FIGURE 3

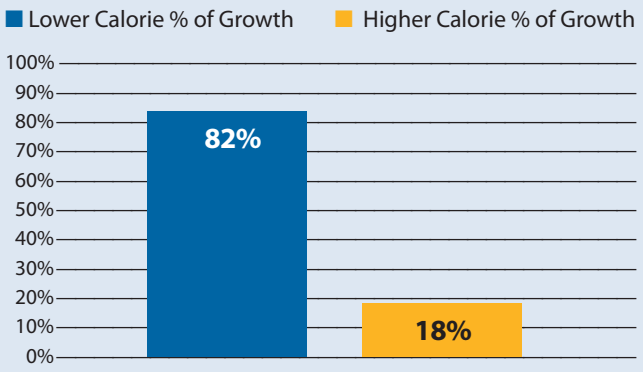
Lower-calorie Products Drove 82% of Sales Growth



In contrast, higher-calorie products contributed disproportionately less to member company growth, accounting for only 18 percent of the sales increase. The percent of sales growth from lower-calorie products outperformed that of higher-calorie products by four to one.

FIGURE 4

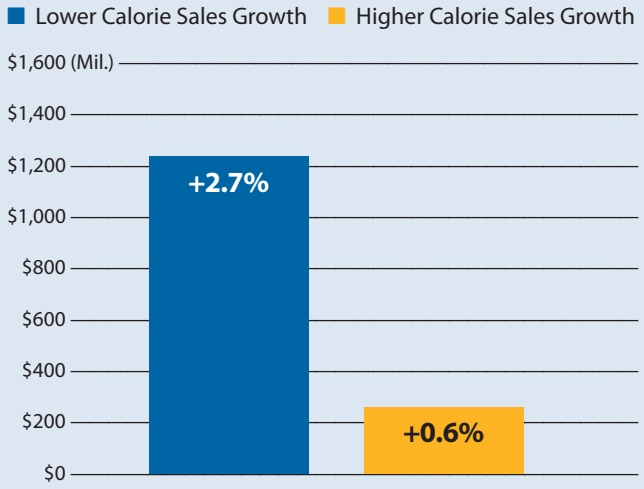
Higher-calorie Products Underperformed



For the 5-year period examined, lower-calorie sales increased by more than $1.25 billion, four times the $278 million gain recorded by higher-calorie foods and beverages.

FIGURE 5

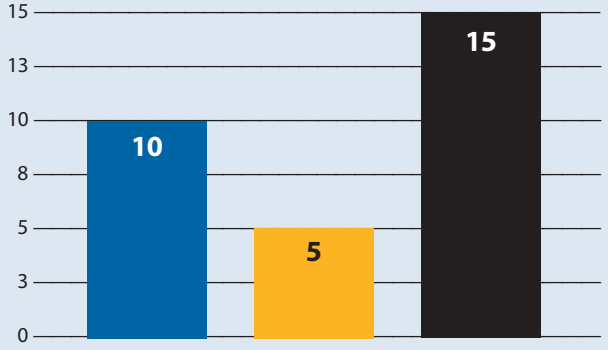
Lower-calorie Products Grew 4x Traditional Ones



Lower-calorie products accounted for two-thirds of new products achieving sales of at least $50 million.

FIGURE 6

2/3 of $50 Million Products Were Lower-calorie



Discussion

Our evaluation concludes that lower-calorie products drove HWCF member sales growth at a disproportionate pace compared to higher-calorie offerings over the 5-year evaluation period. This trend is significant as it is compatible with HWCF's goal to reduce the calorie contribution of its member companies by 1.5 trillion calories by 2015.

The authors have made significant progress in developing a unique research question and sound evaluation process for assessing product portfolios and performance metrics surrounding lower-calorie and better-for-you foods and beverages. The classification criteria provide a methodologically sound process for future research, and the findings establish baseline benchmarks on which to evaluate future industry and company performance.

Limitations

The following important limitations should be noted. Foremost is the quality of the nutrition information for product classification. Calorie information was obtained primarily from the package labels and company web sites, and the Food and Drug Administration allows manufacturers and packagers a considerable margin of error (+/- 20%) regarding the nutrition information depicted on the product packaging, which may have impacted our precision.

It is also important to note the limitations of the sales data. Data for dollar sales during the evaluation period were collected by Nielsen ScanTrack, which does not include data from Walmart, Dollar Stores and warehouse clubs such as Costco. Nielsen is in the process of launching an all-channel product in 2013, which will capture three-year historical data for these categories and can be included in future analyses.

Additionally, the nutrition information collected does not account for nutrition fact changes that might have occurred during the analysis period, as certain discontinued package labels or calorie information were not available for our review.

Finally, a different set of sales data, also purchased from Nielsen, was used for the five companies that were not part of the 2011 Hudson Institute CPG study but included in this one. This new data tracked sales from a different period than the other companies: from 2009 to 2013.

Conclusion

Until now there has been limited evidence that increasing sales of lower-calorie foods and beverages can improve overall company sales performance. Our study concludes that lower-calorie foods are driving growth for CPG companies that are members of the HWCF, and these choices should continue to be pursued aggressively.

As a result of our preliminary findings, we recommend the following:

- Companies should emphasize selling lower-calorie foods and beverages as an effective pathway to improved overall sales growth.
- Tracking lower-calorie product sales growth as a percent of portfolio sales can be a practical business tool in assessing whether the company's calorie contribution has been reduced.
- A follow-on analysis of this data can provide a more robust assessment of specific category performance in selling lower-calorie products.

The HWCF Companies Analyzed

Authors and Acknowledgements

Hank Cardello (lead author) is a Senior Fellow and the director of Hudson Institute's Obesity Solutions Initiative. Hank is the author of *Stuffed: An Insider's Look at Who's (Really) Making American Fat* (www.stuffednation.com) published by HarperCollins/Ecco and the landmark reports "Better-for-you Foods: It's Just Good Business" and "Lower-Calorie Foods: It's Just Good Business." He is a former food company executive with Coca-Cola, General Mills, Anheuser-Busch and Cadbury- Schweppes and has been a frequent contributor to *The Atlantic* and *Forbes* on food industry and obesity policy matters.

Jeffrey Wolfson, Chief Strategic Officer at The FORT Group, provided industry perspective and led the project analytics for this study. Jeff has been a consultant to the food industry for more than 24 years and previously served as a food company executive with General Mills, Nestle and General Foods (now part of Kraft Foods).

Jason Riis, Assistant Professor of Business Administration at Harvard Business School, reviewed the findings. Dr. Riis is a specialist in consumer health, a growing field at the intersection of consumer marketing and healthcare. Professor Riis is examining the ways that food retailers and manufacturers can grow their businesses while making it easier for consumers to eat better. His research has appeared in top academic journals including *Journal of Consumer Research, American Journal of Preventive Medicine, American Journal of Public Health and Health Affairs.* Jason has written Harvard Business School cases on food retailers H-E-B and Red Lobster. He is a former Postdoctoral Research Associate at Princeton University's Center for Health and Wellbeing.

Special thanks to Catherine and Bob Buday, The Bloom Group, for their contributions to the writing and editing of this paper.

The Healthy Weight Commitment Foundation (HWCF) provided support for this study. The HWCF, a CEO-led organization, is a national, multi-year effort designed to help reduce obesity–especially childhood obesity–by 2015. This first-of-its kind coalition brings together more than 200 retailers, food and beverage manufacturers, restaurants, sporting goods and insurance companies, trade associations and non-governmental organizations (NGOs) and professional sports organizations. The companies that participate in HWCF account for nearly 25 percent of calories consumed in the United States and have pledged to eliminate 1.5 trillion calories from their products by 2015. For more information visit www.healthyweightcommit.org.

The Robert Wood Johnson Foundation (RWJF) sponsored the previous Hudson Institute study of the impact of lower-calorie/better-for-you foods on CPG company performance, "Better-For-You Foods: It's Just Good Business," which provided much of the sales data utilized for this study. RWJF is the nation's largest philanthropy devoted exclusively to health and health care.

A companion power point presentation to this report is available online at www.obesity-solutions.org.

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Obesity Solutions Initiative

The mission of Hudson Institute's Obesity Solutions Initiative is to bring about practical, market-oriented solutions to the world's overweight and obesity epidemic.

The Initiative devises policies and offers solutions to the global obesity epidemic by aligning the needs of all vested parties—corporations, the public health community, consumers and regulators. Emphasis is placed on sound quantitative analysis and the incorporation of pragmatic principles to enhance adoption. The undertaking is currently focused on building the business case for lower-calorie, better-for-you foods and beverages by quantitatively demonstrating the sales, financial, and reputational benefits from selling larger amounts of such products.

The Initiative's director is Hudson Senior Fellow Hank Cardello, the author of *Stuffed: An Insider's Look at Who's (Really) Making America Fat* (www.stuffednation.com). He is a former food executive with Coca-Cola, General Mills, Anheuser-Busch and Cadbury-Schweppes, and co-Chair of the Global Obesity Business Forum sponsored by the University of North Carolina at Chapel Hill. Cardello has been a frequent contributor to *The Atlantic* and *Forbes* on business strategy, food policy and obesity matters.

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