



Hudson Institute

Lower-Calorie Foods *It's Just Good Business*

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Obesity Solutions Initiative

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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, shareholder 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.

About this Report

Assistance on this project was provided by Hudson staff members Lauren Betzing and Michael Spitz. Industry perspectives and analysis were provided by Jeffrey Wolfson, Chief Marketing Officer, FORT Group. Review of the findings was provided by Michael Jacobs, Professor of the Practice of Finance at the University of North Carolina at Chapel Hill, and Christopher Malloy, PhD, Associate Professor of Business Administration at Harvard Business School.

Support for this report was provided by the Robert Wood Johnson Foundation.

For more information, visit www.obesity-solutions.org

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Overview

Over the past two decades, obesity rates for children and adults have grown to epidemic proportions. In 1990, no state had an obesity rate above 15 percent. Today, 39 states claim adult obesity rates over 25 percent, and not one has a rate lower than 20 percent. The medical cost of adult obesity is estimated to be at least \$147 billion each year, and the cost to businesses due to absenteeism and lost productivity is estimated at \$73 billion annually.

The last several years have seen governments at all levels take action to address this national epidemic. Efforts to make schools and communities healthier for children and families may be starting to pay off, as some cities and states are beginning to see the first signs of declining obesity rates. Business leaders are stepping up as well. Many in the restaurant trade, a \$660 billion industry employing 10 percent of the U.S. workforce, have signaled their intent to help prevent obesity through individual efforts and in concert with the National Restaurant Association's Kids LiveWell initiative.

However, until now, there has been little evidence regarding how restaurant chains can do well by doing good. In this landmark study, researchers examined NPD restaurant servings and traffic data, and Nation's Restaurant News sales trends, to analyze whether or not growing sales of lower-calorie menu items in 21 national restaurant chains, accounting for half of the top 100 chain sales, resulted in superior business performance.

The study concluded that quick-service and sit-down restaurant chains that grew their lower-calorie servings delivered better business results. In short, sound strategic planning with a commitment to growing lower-calorie items *is just good business*.

The findings of this study clearly demonstrate that between 2006 and 2011 lower-calorie foods and beverages were the key growth engine for the restaurants studied. Restaurant chains growing their servings of lower-calorie foods and beverages demonstrated superior:

- Same-store sales (SSS) growth
- Increases in restaurant customer traffic
- Gains in overall restaurant servings

Increasing lower-calorie menu portfolios can help quick-service and sit-down restaurant chains improve the key performance metrics demanded by their shareholders and Wall Street, while at the same time providing lower-calorie foods and beverages for families and children.

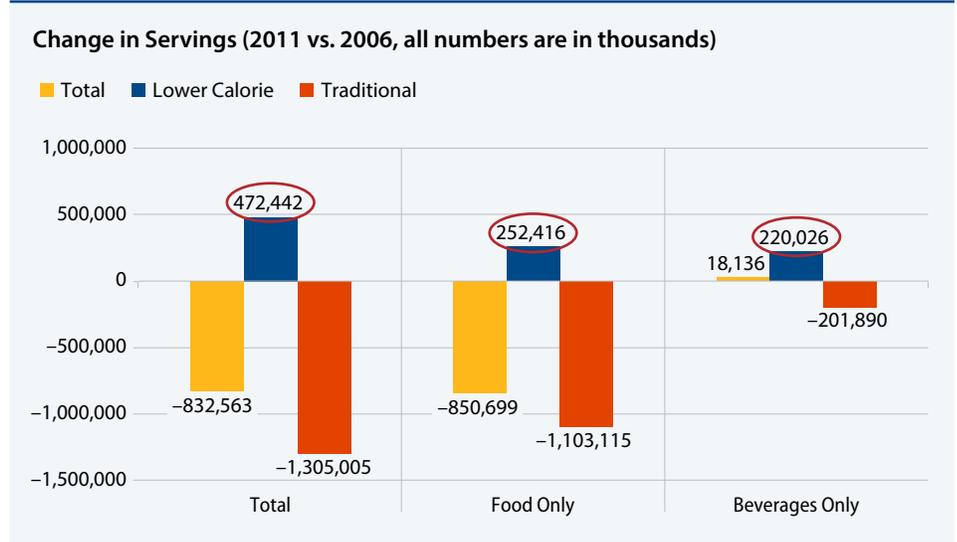
“The proper social responsibility of business is to tame the dragon—that is, to turn a social problem into economic opportunity and economic benefit.”

—Peter Drucker, *Frontiers of Management*, 1968

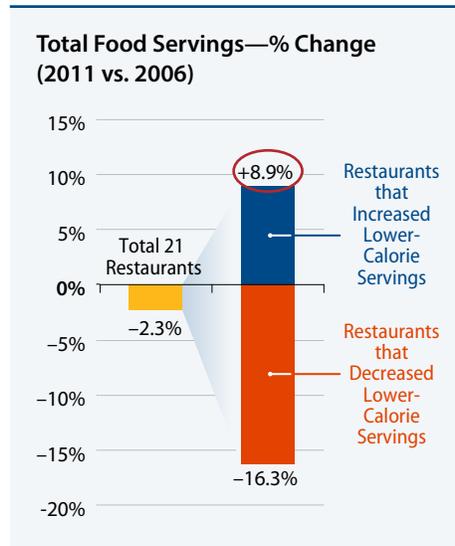
Key Findings

Stronger Servings and Traffic Growth

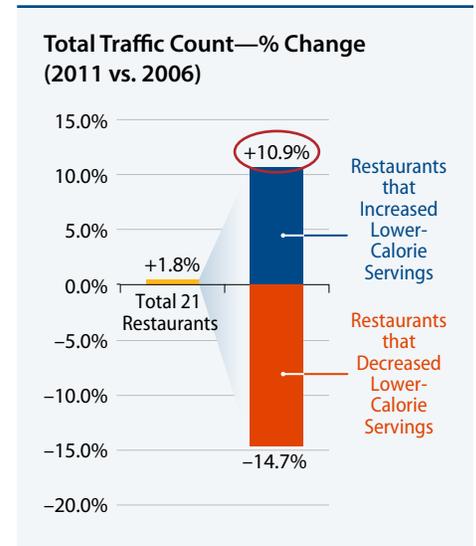
- Among all chains studied, lower-calorie items were the key growth engine for both foods and beverages.
- Chains growing lower-calorie food servings saw increases in overall food servings, while other chains recorded declines.
- Chains growing lower-calorie food servings also recorded strong traffic growth, while other chains declined.



Source: NPD Group/Crest.



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21 Restaurant Chains Analyzed



Lower-Calorie Menu Item Criteria

"Center of the Plate" item
(e.g., sandwich; entrée; meal salad)
≤ 500 calories

Side dish item
≤ 150 calories

Beverage item
≤ 50 calories/8 oz. serving

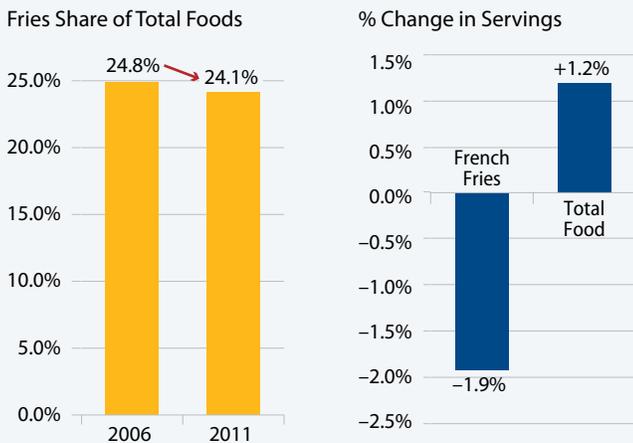
Appetizer item
≤ 150 calories

Dessert item
≤ 150 calories

Important Traditional Foods and Beverages in Decline

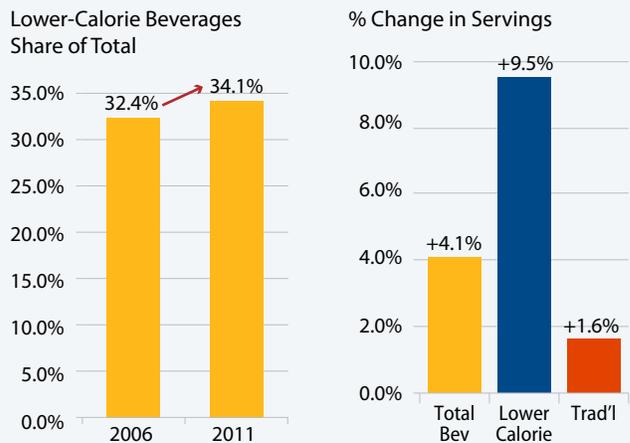
- French fries are declining in both number of servings and share of total food servings among quick-service chains that have more than \$3 billion in sales and greater than 20 percent of chain servings coming from french fries.
- Among the same chains, lower-calorie beverages are also outperforming traditional beverages.

French Fry Trends (2006 to 2011)



Source: NPD Group/Crest—QSR chains > \$3 billion; Fries > 20% of chain servings.

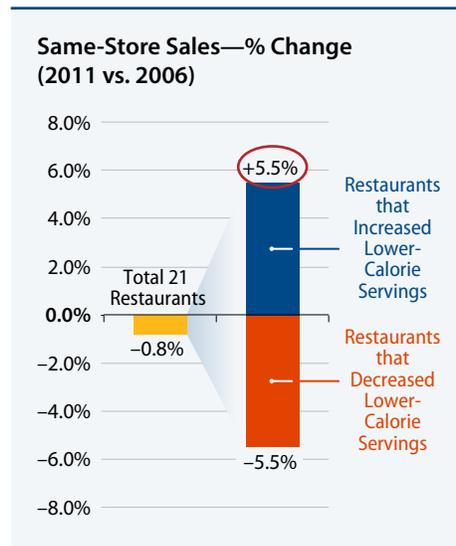
Beverage Trends (2006 to 2011)



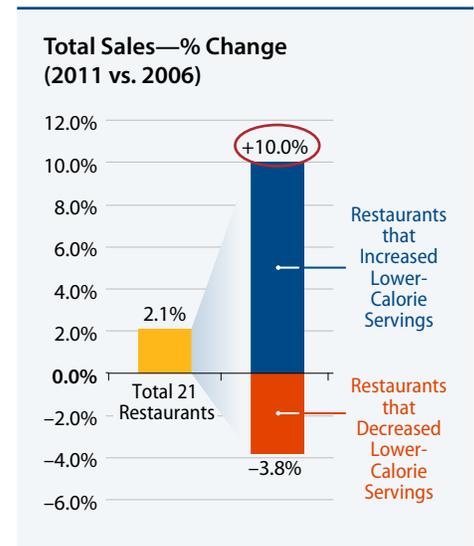
Source: NPD Group/Crest—QSR chains > \$3 billion; Fries > 20% of chain servings.

Superior Sales Performance

- The critical same-store sales (SSS) metric is superior among chains growing their lower-calorie servings.
- These chains also saw sharp increases in total chain sales.



Source: Nation's Restaurant News, Trinity Capital, Company Annual Reports.

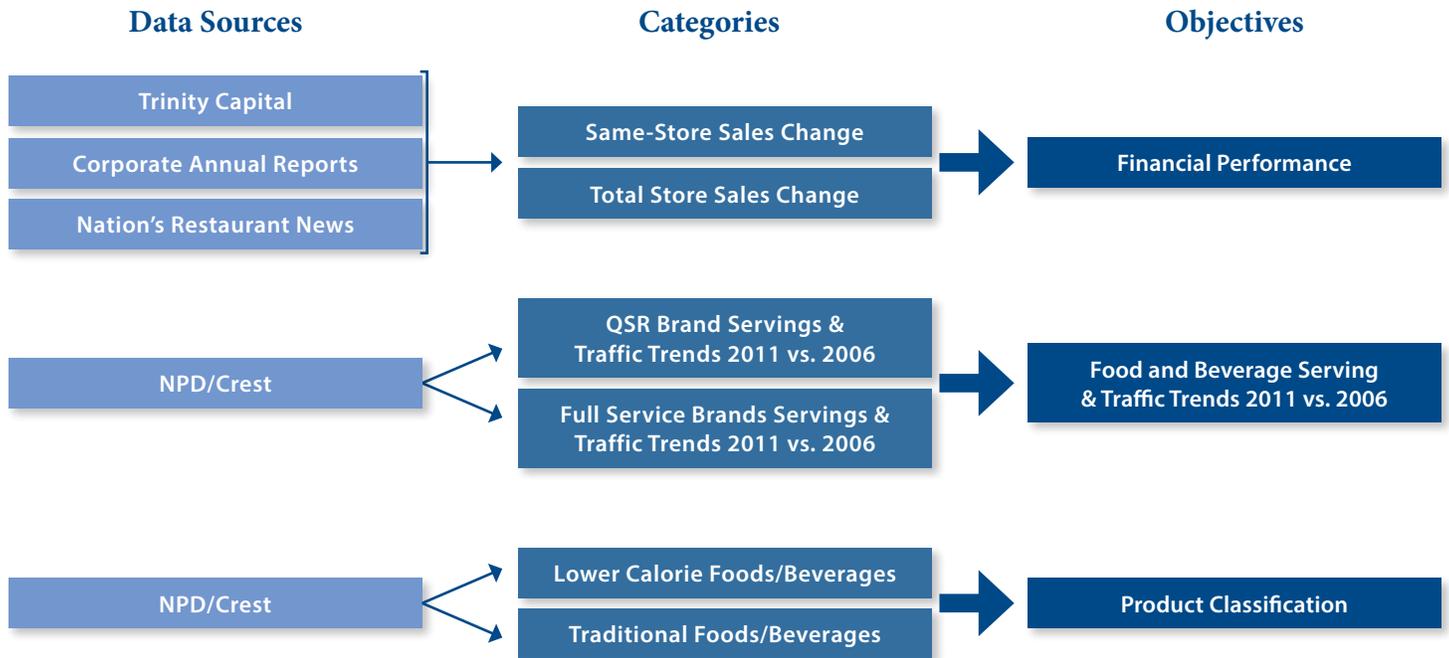


Source: Nation's Restaurant News, Trinity Capital, Company Annual Reports.

Implications for Action

- Emphasizing lower-calorie foods and beverages is a proven pathway to improved servings, traffic, and sales.
- Proof that performance is enhanced could accelerate the development and marketing of lower-calorie menu items.
- Public health officials and policymakers need to heed core restaurant chain business metrics in order to most effectively work with industry to address the obesity epidemic.
- The lower-calorie servings metric developed in this study should be adopted by restaurant chains to annually track performance and progress.
- Restaurant chains now have incentive to lower their calorie footprints to enhance their performance and to help address high obesity rates.

Methodology



Glossary

Lower-Calorie Foods & Beverages:

Restaurant menu items ("center of the plate;" side dishes; beverages; appetizers; desserts) meeting maximum calorie criteria established in conjunction with the Nutrition Coordinating Center ("NCC") at the University of Minnesota.

Traditional Products: Restaurant menu items not meeting the NCC maximum calorie criteria.

Quick-Service Restaurant ("QSR"):

Restaurants that are characterized by simple décor, inexpensive fast-food items, speedy service and minimal table service. They are usually part of a restaurant chain operation serving standardized fare.

McDonald's is the quintessential example of a QSR. For purposes of this analysis, Panera Bread, oftentimes considered a Fast Casual chain, is included in this class of restaurants.

Sit-Down Restaurant: Casual dining restaurants are defined as sit-down restaurants in this report. Casual dining restaurants offer full table service and are generally family friendly. The food, service and décor is superior to QSRs. Olive Garden provides an example of a casual dining chain.

Same-Store Sales ("SSS"): An important metric used in restaurant industry analysis that tracks the sales

revenues of stores that have been open for at least one year. Same-store sales allow management and investors to determine what portion of sales comes from existing store sales growth compared with sales derived from the opening of new stores.

Total Sales: A measure of a restaurant chain's sales revenues from all stores, including units that have not been open for at least one year.

Servings: The number of times a specific food item was ordered.

Traffic: The number of people coming through a restaurant's door (i.e., one person making one visit).

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