CASE 5. *Kraft Foods Inc.: The Cost of Advertising on Children's Waistlines*

The room fell silent as Dr. Ellen Wartella, Dean of the College of Communications at the Univeristy of Texas at Austin, gave Kraft executives her opinions on a presentation they had just made regarding Kraft and advertising to children. Wartella characterized Kraft's online marketing as "*indefensible*" and concluded that Kraft's claim that it was not advertising to children under the age of six was "*at best disingenuous and at worst a downright lie.*"[1] The executives in the room were visibly shaken by her comments.

In late 2003, Kraft formed the Worldwide Health & Wellness Advisory Council, comprising 10 nutritionists and media experts, including Wartella, to investigate allegations that Kraft had been knowingly advertising unhealthy foods and to help address the rise in obesity, among other health issues.[2] The pressure for Kraft to review its advertising policies came amidst increasing criticism from congressional panels, parent groups and other concerned citizens, that food corporations, such as Kraft Foods and McDonald's Corporation, have been knowingly targeting young children (up to age 12) in their advertising campaigns. The concern surrounding childhood obesity stems from statistics showing a 200 percent increase in childhood obesity since the 1980s. Between the 1960s and the 1980s, the percentage of overweight children hovered around 6 percent, but in the last two decades, this rate has leapt to 16 percent.[3] Despite this, Kraft decided to keep marketing to children under 12. One Kraft executive admitted, "We didn't want to give up the power of marketing to kids."[4]

This "power" is villainizing the company, however. Currently, Kraft is a trusted brand, but that reputation is already slipping. According to the Reputation Quotient study conducted in 2005 by research firm Harris Interactive, Kraft is ranked in the 50th slot.[5] While this is a small drop from the 48th spot Kraft held the previous year, it is a far distance from the 8th position occupied by competitor General Mills. This survey is based on consumer perception of various factors, including a company's quality of products and services, social responsibility, and vision and leadership. Depending on what Kraft chooses to do about its food marketing issue, the company may rise higher in subsequent Reputation Quotient studies, or it may fall further down.

Kraft Foods is a company that values quality and safety in its products. One of Kraft's key strategies is to "build superior consumer brand value" through "great-tasting products, innovative packaging, consistent high quality, wide availability, helpful services and strong brand image."[6] With products in more than 99 percent of U.S. households, Kraft certainly has earned the trust of its consumers.[7] With the recent feedback from the Health and Wellness Advisory Council and public concerns about childhood obesity due to aggressive food marketing, however, Kraft must take action

This case was prepared by Research Assistants Pauline Hwa and Timothy Housman under the direction of James S. O'Rourke, Concurrent Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

before it loses consumers' loyalty and trust in its products.

KRAFT FOODS INC.

Kraft Foods Inc., the largest food and beverage company in North America, has grown considerably from its humble beginnings in 1903. With only $65, a rented wagon, and a horse named Paddy, J. L. Kraft started the company by purchasing cheese from a wholesale market and reselling it to local merchants.[8] These cheeses were packaged with Kraft's name. A decade later, Kraft improved the cheese by processing the product, which prolonged its shelf life. The processed cheese became such a success that a patent for the "Process of Sterilizing Cheese and an Improved Product Produced by Such Process" was issued to Kraft in 1916.[9] Over the years, the company went on to create other new cheese products that are familiar to homes today including *Velveeta* and *Cheez Whiz,* as well as expanding beyond cheese to introduce salad dressings, packaged dinners, barbecue sauce, and other products.

Tobacco giant Philip Morris acquired General Foods Corporation in 1985 and then Kraft three years later for $12.9 billion.[10] Through the acquisition of these two major food companies, Philip Morris formed Kraft General Foods, which put products such as *Velveeta, Post* cereals, *Oscar Mayer,* and *Jell-O* pudding all under the same food division. Kraft General Foods further expanded its household reach by acquiring Nabisco, home of well-known brands including *Oreo* cookies, *Ritz* crackers, and *Planters* nuts in 2000. The next big step for Kraft occurred in 2001 when Philip Morris conducted an initial public offering of Kraft's shares (NYSE: KFT). The following year, Philip Morris shareholders accepted a proposal to change the company's name to Altria Group. As of January 27, 2003, Altria Group became the parent company to Kraft Foods.

KRAFT'S TROUBLES IN ADVERTISING

There are many reasons why Kraft should be concerned about further criticism of its advertising practices. As a leader in the food industry, Kraft is both large and very visible, and the company has experienced repeated controversy and criticism of its advertising campaigns over the years. A few recent issues include:

- Kraft's advertisement of Post cereal in *National Geographic Kids* was not focused on the food but rather on the premium of Postokens instead, which is a violation of The Children's Advertising Review Unit's Self-Regulatory Guidelines for Children's Advertising.[11]
- Kraft had previously announced its intention to reduce portion size and then later backed out of that commitment, saying that consumers wanted to choose their portion sizes for themselves.[12]
- Kraft pulled an *Oreo* commercial directed at teenagers that promoted a "slothlike" lifestyle because the company realized that such an ad would hurt its image and instead opted for promoting "a more active lifestyle."[13]

OBESITY IN THE COURTS: THE McLAWSUIT

The food industry became visibly worried about food marketing and childhood obesity in 2002. It was then that McDonald's Corporation faced a lawsuit, *Pelham v. McDonald's Corporation,* in which the company was charged with marketing food products that contribute to the rise of obesity in children and teenagers. Although the judge threw out the class-action lawsuit against McDonald's, he made it very clear that he supports the plaintiffs' position. He encouraged them to redraft and refile the suit with stronger evidence, and went so far as to provide advice on what to look for. One of his recommendations was to show how McDonald's advertising campaigns encouraged overconsumption by promoting its food products for "everyday" eating.[14]

McDonald's Corporation still stands behind their standards in marketing to children. According to David Green, Senior Vice President of Marketing for McDonald's, even though 20 percent of McDonald's commercials are targeted at children, the company follows a strict set of guidelines. The Golden Arches Code, according to company spokesmen, "conforms with the major network Broadcasting Standards and the guidelines of the Children's Unit of the National Advertising Division Council of Better Business Bureaus Inc., as well as establishing additional standards applicable only to McDonald's advertising."[15] Green says that the Golden Arches Code "states that in our advertising we should never promote the sale of food items to children that might be too large for them to consume realistically at one sitting nor should children be depicted as coming to McDonald's on their own, as they must always be accompanied by an adult."

A month prior to *Pelham v. McDonald's Corporation,* Sam Hirsch, the attorney who filed the suit for the overweight children and teenagers, had filed another class-action suit against McDonald's and other leading fast-food establishments.[16] This suit was filed not only against McDonald's Corporation, but also Burger King, Kentucky Fried Chicken, and Wendy's. Observers speculated the driving force behind these two suits was the prospect of a large financial settlement. Hirsch remained adamant about his clients' intentions, saying "we are not looking to get rich from a large money settlement. We are proposing a fund that will educate children about the nutritional facts and contents of McDonald's food."[17] These suits intensified fears in the food industry of a future of "tobacco-like" litigation against restaurants and food manufacturers.[18]

In January 2005, the second U.S. Circuit Court of Appeals reinstated claims that McDonald's falsely advertised the health benefits of its fast food, a violation of the New York's Consumer Protection Act.[19] Unquestionably, the plaintiffs had the full attention of quick service restaurant operators and food manufacturers worldwide.

STUDIES SHOW. . .

Fewer Ads

In July 2005, the Federal Trade Commission (FTC) released its findings that children today watch fewer food commercials than they did almost three decades ago. Children today watch 13 food advertisements on television per day, a significant reduction from the 18 television commercials per day in 1977.[20] The FTC also reported that kids today are exposed to fewer ads for cereal, candy, and toys but more ads for restaurants and fast-food chains, other television shows, movies, video games, and DVDs. Wally Snyder, president of the American Advertising Federation, believed this study was proof that food marketing is not culpable for the rise of obesity in children, which he blamed on a "lack of exercise and moderation in the diet."

More Ads

A year later in 2004, the Kaiser Family Foundation released a study with contrary information, claiming "the number of ads children see on TV has doubled from 20,000 to 40,000 since the 1970s, and the majority of ads targeted to kids are for candy, cereal, and fast food."[21] The study suggested that this increase in food advertising was correlated to the rise in obesity in children aged 6 to 11. In 1963–1970, only 4.2 percent of children in this age group were listed as overweight compared with 1999–2000, when the number spiked to 15.3 percent.

The Tie-Breaker

Perhaps because of the conflicting findings or because of rising concerns about food marketing to children and its effects, Congress requested a study of its own from the National Academy of Sciences, which was created by the federal government to advise on scientific issues.[22] In December 2005, The Institute of Medicine (IOM), a private, nongovernmental division of the National Academy of Sciences, released the latest study on the subject, *Food Marketing to Children and Youth: Threat or Opportunity?* Based upon individual findings, the IOM committee responsible for the study came to the following five conclusions:[23]

Broad Conclusions

1. Along with many other intersecting factors, food and beverage marketing influences the diets and health prospects of children and youth.
2. Food and beverage marketing practices geared to children and youth are out of balance with healthful diets and contribute to an environment that puts their health at risk.
3. Food and beverage companies, restaurants, and marketers have underutilized potential to devote creativity and resources to develop and promote food, beverages, and meals that support healthful diets for children and youth.
4. Achieving healthful diets for children and youth will require sustained multisectoral and integrated efforts that include industry leadership and initiative.
5. Public-policy programs and incentives do not currently have the support or authority to address many of the current and emerging marketing practices that influence the diets of children and youth.

The study also suggested there was "strong evidence" that food marketing influences the preferences, purchase requests, and short-term consumption of children between the ages of 2 and 11. This information combined with the fact that a "preponderance of television food and beverage advertising relevant to children and youth promotes high-calorie and low-nutrient products, it can be concluded that television advertising influences children to prefer and request high-calorie and low-nutrient foods and beverages."[24] Wartella, who served not only on Kraft's advisory council but also as a member of the committee that produced the IOM study, said "We can't any more argue whether food advertising is related to children's diets. It is."[25]

The Institute of Medicine's recommendations for the food industry included promoting and supporting healthier products and working with government, public health, and consumer goods "to establish and enforce the highest standards for the marketing" of food and beverage products to children.[26] In general, many food companies had already started programs to promote healthier products. The problem was with the latter recommendation in marketing standards. IOM believed this meant licensed characters should be "used only for the promotion of foods and beverages that support healthful diets for children and youth."[27] Most companies, Kraft included, were reluctant to give this up. Licensed characters were typically familiar faces to children. How does a company replace a spokesperson or promoter that already has the trust of the audience, is affordable, and will never get into any real-life trouble?

THE ANNOUNCEMENT

In January 2005, Kraft announced that it would stop advertising certain products to children under 12. These products include regular *Kool-Aid* beverages, *Oreo* and *Chips Ahoy* cookies, several *Post* children's cereals, and some varieties of its *Lunchables* lunch packages.[28] These favorites will still be found in stores, but Kraft said it will no longer be targeting children with television, radio, and print ads for these products. The initial cost of implementing these new guidelines included an estimated $75 million in lost profits, though this figure continued to change several times.[29] While this estimate may seem high, Michael Mudd, a member of Kraft's obesity strategy team said, "If the tobacco industry could go back 20 or 30 years, reform their marketing, disarm their critics, and sacrifice a couple of hundred million in profits, knowing what they know today, don't you think they'd take that deal in a heartbeat?"[30] Kraft, learning the lessons of Philip Morris, was eager for the deal.

Shortly after Kraft made its announcement, however, the company joined competitors General Mills and Kellogg to form a lobbying group to keep the government from regulating food marketing to children. The group's mission statement states its belief that "there is not a correlation between advertising trends and recent childhood obesity."[31] General Mills had always argued for this point. In fact, instead of stopping ads to children, Tom Forsythe, General Mills vice president, announced that the company "launched a vigorous defense of cereal," to support its health benefits.[32] The company also decided to promote "balanced moderation and exercise," believing that such lifestyle choices affect obesity as much as food selection.[33] Thus, General Mills' participation in this group was expected, but for Kraft, joining this group appeared to be a hypocritical move. David S. Johnson, Kraft's Chief of North America, defended the action, "We believe self-regulation of the marketing of food products can and does work, and we are collaborating with the industry to strengthen efforts in this area."[34]

CONCLUSION

Since the announcement, Kraft has still struggled with child advertising and obesity issues. Margo G. Wootan, Director of Nutrition for the Center for Science in the Public Interest, has called Kraft's new marketing plan only "a really good step forward."[35] The problem is that there will always be critics who will demand for more. For instance, although Kraft has taken a huge leap in minimizing television, radio, and print ads, the company has yet to act on Wartella's criticism for its online advertising.

Kraft has spent a great deal of time to respond to critics and potential threats of government regulation. What Kraft really needs at this point is to put the focus back on its customers and communicate with them. The question is how to go about doing this without appearing to go back on its promises of not saturating the market with advertisements.

Questions

1. What are the critical issues of this case? Who are the stakeholders (primary, secondary and indirect)?
2. What should Kraft do to maintain the already declining trust of the consumers?
3. Can the public believe in Kraft's commitment to control food marketing to children?
4. What are Kraft's options concerning its marketing tactics?

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