
Case Study 1: Nestlé in Mexico: The Good Food Versus The Good Life Dilemma

Cristina Galalae and Suresh George

Background

Obesity and Eating Habits in Emerging Markets: The Obesogenic Environment in Mexico

The availability of tasty, convenient and inexpensive foods is a significant contributor to the increase in global obesity (Brug et al. 2005; Chandon and Wansink 2012; de Ridder 2012), especially in emerging countries (World Health Organization 2003). The impact of free trade agreements and subsidised agriculture sectors in tandem with mechanical labour-saving devices have made it possible to produce and process food dense in nutrients at a lower cost than unprocessed food. In the last 20 years, the cost of fruit and vegetables in Brazil, China, Republic of Korea and Mexico soared by up to 91%, above consumer price inflation, while the price of some processed foods such as ready meals fell a fifth in real terms (Wiggins et al. 2015).

As a country known for its per capita consumption of ultra-processed food and drinks, both in Latin America and amongst other emerging economies, Mexico has experienced one of the fastest increases in the prevalence of excess weight and associated conditions (see Fig. 1). Correspondingly, Mexico has the world's highest child obesity rate (Instituto Nacional de Salud Pública (Mexico) 2012) with a rising numbers of deaths from obesity-related diseases such as hypertension, diabetes and cancer. The cost of treating these diseases rising as well. According to the International Diabetes Federation North America and Caribbean, there were nine million cases of diabetes in Mexico in 2014 and the annual cost per person to treat the disease is approximatively GBP 590. This is a notable amount in many emerging markets (Yisahak et al. 2014).

C. Galalae (✉) • S. George

Faculty of Business, Environment and Society, Coventry University, Coventry, UK

e-mail: ab9626@coventry.ac.uk; aa3262@coventry.ac.uk

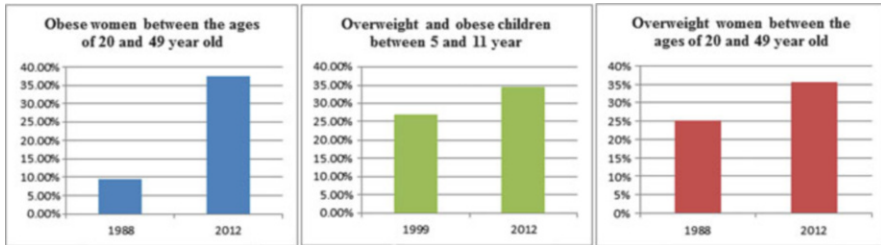


Fig. 1 Obesity and overweight in Mexico. Source: Instituto Nacional de Salud Pública (Mexico) [Mexican Institute for Public Health] (Ed.). (2012). *Encuesta nacional de salud y nutrición 2012: resultados nacionales*. [National Survey on Health and Nutrition 2012: National Results]. Cuernavaca, Morelos, México: Instituto Nacional de Salud Pública: Secretaría de Salud

The high cost of treatment and the increasing incidence of diseases such as obesity, brings us to the ethical dimensional of contextualising the role of different actors responsible for promoting or aiding obesity.

Ethics and Food Consumption: Who Should Solve the Obesity Problem?

Accountability for the problem of obesity appears to be shared between various vectors of globalisation. The World Health Organization identifies three categories of actors who are responsible for addressing this issue: individuals, society and the food industry (see Table 1) (World Health Organization 2014).

Although the World Health Organisation seeks to promote a healthy life via healthy habits, a great deal of responsibility lies with food producers, processors and the overall food industry operators. These actors all have a role in in actively promoting, producing and sustaining healthy and affordable food. Conscious of commercial objectives, the food industry firms are expected to take an active role in marketing campaigns that may target vulnerable consumers, who may be unaware of the implications of consuming processed food. In spite of understanding that the consumer is ultimately responsible for what he or she eats, representatives from government bodies, NGOs, industry, consumer groups and labour organisations agree that companies are jointly responsible for the impact of their decisions, commercial strategies and activities on society and environment (Hahn and Weidtmann 2012, p. 201). New standards and legislations in this context have been developed to support the food industry. The International Organization for Standardization developed ISO 26000:2010 as a guidance manual for those organisations who desire to translate ethical principles into effective actions relating to social responsibility. Whilst not a basis for legal actions, complaints, defences or other claims in any international, domestic or other proceeding, ISO 26000:2010 aims to encourage companies to go beyond legal compliance. It

Table 1 Actors who could potentially solve the obesity problem

Individual actors	Society actors	Food industry
<ul style="list-style-type: none"> • Limit energy intake from fats and sugars • Increase consumption of fruit and vegetables, as well as legumes, whole grains and nuts • Engage in regular physical activity (60 min a day for children and 150 min per week for adults) 	<ul style="list-style-type: none"> • Engage in sustained political commitment and collaborate with public and private stakeholders to provide individual actors with the support that they need • Make regular physical activity and healthier dietary choices available, affordable and easily accessible to all—especially the poorest individuals 	<ul style="list-style-type: none"> • Reduce the fat, sugar and salt content of processed foods • Ensure that healthy and nutritious choices are available and affordable to all consumers • Practice responsible marketing, especially when aimed at children and teenagers • Support regular physical activity practice in the workplace

Source: Adapted after World Health Organization, W. (2014). *Global Action Plan for the Prevention and Control of NCDs 2013-2020*. Retrieved from http://www.who.int/nmh/events/ncd_action_plan/en/

recognizes that abiding the law is a fundamental duty of any organization and an essential part of their social responsibility (Bernhart and Maher 2011).

Firms have the freedom to choose whether they want to actively engage in sustainable activities such as improving the lives of their customers. However, it seems that food operators with strong brands no longer have this choice. This is due to external pressure coming from secondary society stakeholders, such as nongovernmental organisations, mass-media, activists or the Government. As a result, they often face the challenge of developing marketing campaigns that promote their products and communicate their involvement in societal actions addressing obesity at the same time. Overall, as depicted in Fig. 2, marketing promotion and CSR interventions are not driven by the same categories of stakeholders and may lead to very different outcomes.

Since there is a close relationship between food consumption and individual/public health, food operators are expected to take responsibility of their products’ effects on consumers. Whereas a car producer is not expected to encourage drivers to exercise, a food operator is expected by its secondary stakeholders to compensate for the potential damage that consumers might do to themselves. This applies in particular for vulnerable consumers.

Global food majors, such as Cadbury Adams, the Danone company, Mars, Inc., Nestlé, Post Foods, PepsiCo, etc. are in the forefront of trying to reduce the consumption of high calorie products. Some of the initiatives are research into new product recipes, developing smaller sized products and educational awareness campaigns on importance of physical exercise. A key academic dilemma that these initiatives bring to our notice is the lack of evidence about (1) the efficiency of these interventions on the decrease of obesity/changing eating habits of consumers; (2) positive effects of corporate social responsibility interventions on the corporate image and on sales of companies developing these interventions; (3) the concrete

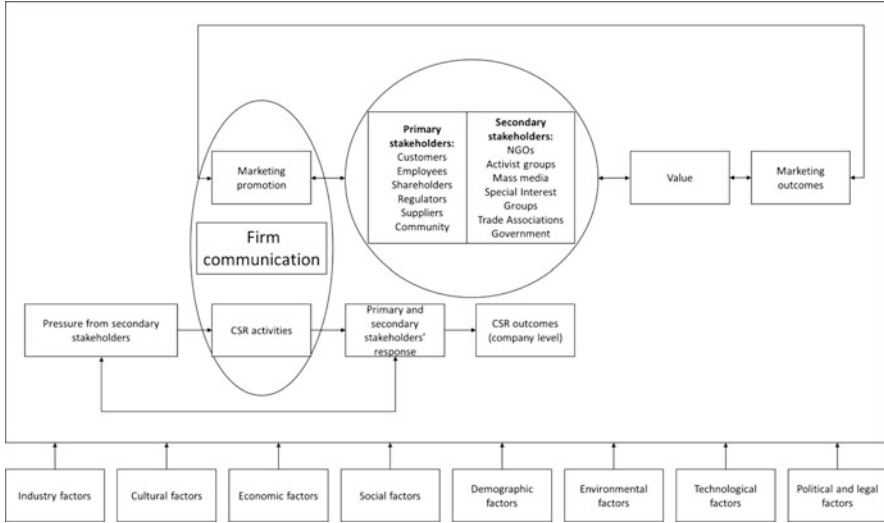


Fig. 2 Marketing promotion and CSR involvement communication: different drivers and divergent outcomes. Source: Hartmann, M. (2011). Corporate social responsibility in the food sector. *European Review of Agricultural Economics*, 38(3), 297–324

reasons why companies develop this sort of interventions. This case therefore focuses on Nestlé, to explore how its marketing communication and corporate social responsibility (CSR) agenda contributes to its credibility as an ethical food industry operator.

Company Report

Nestlé: Company Profile

Nestlé S.A. is a holding company of the Nestlé Group, which comprises its subsidiaries, associated companies and joint ventures across the world. Known today as the largest food and beverage company in the world, Nestlé S.A., was founded in Vevey, Switzerland by a German pharmacist in 1867. Whilst at its beginnings, Henri Nestlé's company only produced "Farine lactée", a combination of cow's milk, wheat flour and sugar, today Nestlé markets approximately 7500 brands organized into the following product categories: baby foods, breakfast cereals, chocolate and confectionery, beverages, bottled water, dairy products, ice cream, prepared foods, foodservice, and pet care. About 339,000 Nestlé employees are working in 468 factories or operation centres located in almost every country in the world (Company history 2015).

The company reported sales totalling over 91 billion CHF in 2014, out of which about 44% were generated in emerging markets. The latter delivered an 8.9% organic growth in 2014, whilst developed markets had a 1.1% organic growth

(Nestlé Global 2016). These results position Nestlé in the top of the bestselling food and beverage operators in the world.

Nestlé is publicly owned with over 250,000 shareholders, none of which individually own more than 5% of the shares. In terms of geographic location, Swiss investors held the major part of the stock (35.28%), followed by US (28.53%), UK (6.17%), Germany (4.51%), Belgium (3.49%), Luxembourg (3.00%), Japan (2.33%), Canada (2.13%), China (2.04%), France (1.91%). Group companies were holding together 1.7% of the Nestlé S.A. share capital as at 31 December 2014. As of Dec 21 2014, institutional shareholders represented 79% of the stock, and private investors made up 21% (Investor FAQs 2015).

Nestlé positions itself as a company “committed to enhancing people’s lives by offering tastier and healthier food and beverage choices at all stages of life and at all times of the day” (Company history 2015). However, it was also subject to the largest boycott in history in the late 1970s and its ethical behaviour was often questioned, especially in emerging countries where food regulations are not always in place.

Nestlé Mexico

Nestlé started importing food products in Mexico in 1930 and established its first factory in Ocotlán, Jalisco by the end of 1935. In 2014, the company employed over 16,000 people in 14 factories and 16 distribution centres all over Mexico and distributed products under 80 different brands (Historia 2016). Nestlé Mexico reported sales totalling about 2.9 billion CHF in 2014, 6.9% lower than in 2013 (Nestlé Global 2016).

The company considers that “Mexico remains challenging” with a changing fiscal legislative environment, that affects consumer sentiment (Martello 2014). To understand how Nestlé has tried to manage these challenges, Nestlé Mexico’s interaction with its stakeholders needs to be explored.

Nestlé’s Stakeholders

Consumers

Corn, beans and chili peppers are some of the staples of the Mexican cuisine which dates back to Aztecs and Incas. Whilst homemade meals are still preferred by Mexicans, studies show that the establishment of supermarkets and hypermarkets following the North American Free Trade Agreement (NAFTA) in the early 1990s has led more and more Mexican consumers to change their shopping and consumption patterns (International Markets Bureau (IMB) 2013).

Despite the importance of fresh food in the Mexican diet, packaged and industrialized food experienced higher share growth than fresh food, as people have less time for buying, preparing and cooking food, especially in urban areas. This can also be explained by the increasing size of the working population, the

decreasing number of members per household, the increasing purchasing power of children, and the sizeable proportion of the aging population. Thus, many Mexicans from all income segments are now replacing whole meals with packaged food, which is not only cheap and convenient but widely available at different retail outlets across the nation.

According to the most recent Census in Mexico, it appears that locals direct 19% of their total food expenditure on cereals, a percentage surpassed only by the meats expenditure (22%) (Instituto Nacional de Salud Pública (Mexico) 2012). They also drink 176 l of sugary drinks per year, on average, compared with just under 22 l globally (CAMARA DE DIPUTADOS 2016). As a consequence, Mexicans do not consume enough protein and their sugar consumption—92 g per day (International Markets Bureau (IMB) 2013) is almost twice the quantity recommended by the World Health Organizations (World Health Organization 2014).

Nestlé's food and beverage products rank third on Mexicans' preferences. The leading companies at industry level are domestic players, headed by Grupo Bimbo SAB and Grupo Lala SA. Small artisanal companies remain the biggest influence on the industry, especially in categories such as bakery, where traditional retail outlets remain a strong tradition and part of Mexican culture. Coffee mixes, cereal products and dairy are amongst the bestselling Nestlé products in Mexico (Nestlé Global 2016; Martello 2014).

Government and Regulators

Alarmed by the obesity epidemic, the Mexican Government decided to take a leading role in persuading its citizens to follow healthier lifestyles. To this end, in 2013, it has launched La Estrategia Nacional para la Prevención y el Control del Sobrepeso, Obesidad y Diabetes de México (The National Strategy for the Prevention and Control of Overweight, Obesity and Diabetes) one of the most comprehensive government strategies in this area. It includes awareness-raising, health care, regulatory and fiscal measures (OECD 2014). Specifically, up to November 2015, Mexican authorities initiated several interventions aiming to (1) determine consumers to purchase and eat less unhealthy products; (2) convince individuals of the benefits of having an active lifestyle; (3) constrain food operators to develop healthier products/products with a lower calorific content. Table 2 summarizes some of the interventions that the Government initiated. The third column indicates Nestlé's implication or contribution for each intervention.

The Media

A recent study by Mexico's National Public Health Institute found that packaged food and beverages accounted for one in five advertisements on open-TV, and three-quarters of those ads were for products that the institute considers unhealthy,

Table 2 Interventions initiated by the Mexican Government to support the fight against obesity

Objective	Intervention	Nestlé's reaction/ involvement
<p>Determine individuals to consume less unhealthy products</p> <p>Convince individuals of the benefits of having an active lifestyle</p>	<p>“Unidos por Niños Saludables” (United for Healthy Children) is a national information campaign initiated by the Mexican Health Department, which seeks to educate parents about how to ensure a better diet for their offspring</p>	<p>Nestlé is the main partner of this campaign; its efforts focused on developing a large online platform aiming to inform individuals about what a healthy lifestyle entails. The information provided by Nestlé on the website https://www.uxns.com.mx can be summarized in the following categories: (1) details about the quantity of food and the macronutrients that people should consume; (2) information regarding the relevance of physical exercise; (3) tips for parents who would like to make sure that they children have a healthy lifestyle</p> <p>In addition, El Fondo Nestlé para la Nutrición de la Fundación Mexicana para la Salud (The Nestlé Fund for Nutrition and el Instituto Nacional de Salud Pública (National Institute for Public Health) published a comprehensive book including an analysis of food consumption in Mexico. The book, entitled “Qué y cómo comemos los mexicanos? Consumo de Alimentos en la Población Urbana.” (What and how do Mexicans eat? Food consumption of Urban Population) aims to raise awareness about the unhealthy eating habits and how they can be avoided</p>
<p>Constrain food operators to develop healthier products/ products with a lower calorific content</p> <p>Determine consumers to consume less unhealthy products</p>	<p>A new tax 8% called IEPS -Impuesto Especial Sobre Producción y Servicios (special tax over production and services) was imposed on all packaged food products considered to be</p>	<p>Nestlé didn't explicitly express their official position regarding the tax. However, food and beverage industry associations of whom the company is part of, met the Mexican Government</p>

(continued)

Table 2 (continued)

Objective	Intervention	Nestlé's reaction/ involvement
	<p>non-nutritional (with at least 275 kilocalories per 100 g)</p> <p>New legislation relating to advertising in mass media channels was developed in order to limit advertising targeting children directly. Specifically, products such as chocolate, candies, chips, soda, sugary cereals, yogurts, cookies, cakes etc. can no longer be promoted on afternoon and weekend television time slots during programs in which the vast majority of viewers are under the age of 12, or on the screen before children's movies in cinemas</p>	<p>officials to negotiate a smaller tax</p> <p>As part of ConMéxico, a food industry group made of 47 companies, Nestlé declared their adherence to the new law. However, one week after the regulations were set in place, La Comisión Federal para la Protección contra Riesgos Sanitarios (The Federal Commission for the Protection against Sanitary Risk) reported that 3% of the commercials aired in the first week after the ban did not respect it. One of the commercials shown at the wrong time was an ad for Nestlé's Nesquik Duo cereals. A sanction has been launched against the brand, but Nestlé representatives did not comment</p>

like sugary drinks. Up to the end of 2015, broadcasters in Mexico did not reveal any information about the impact of the new advertising restrictions.

NGOS and Activist Groups

There are several nongovernmental organizations and activist groups who play important roles in the fight against obesity in Mexico. La Alianza por la Salud Alimentaria (The Association for Food Safety), the UN branch called the Food and Agricultural Organisation or El Poder del Consumidor (The power of the consumer) are just some of the most well-known ones. These groups generally support the measures taken by Mexican officials and severely criticise the behaviour of the industry operators. For example, Alejandro Calvillo, the director of the Power of the Consumer Association recently underlined that food companies can easily promote their highly calorific products to children without running afoul of governmental regulations. Calvillo mentioned that companies can target children through television advertisement aired outside the hours mentioned in the new advertising legislation (Alianza por la Salud Alimentaria – Actúa por la salud 2016).

Interestingly enough, while Nestlé created its own associations, NGOs and civic groups in Mexico, they did not partner with any of the established activist groups in Mexico.

Discussion

At the 2014 World Economic Forum at Davos, Nestlé's CEO, Paul Bulcke announced that Nestlé will invest one billion dollars in Mexico, building two new factories in the country. The five-year investment, will fund a new infant nutrition factory in Ocotlán, in western Mexico's Jalisco state, and a pet food factory in the city of Silao, in the central Mexican state of Guanajuato. It will also be used to expand Nestlé's cereal factory in Lagos de Moreno, also in Jalisco state, with state-of-the-art technology, making it the company's largest in the region (Nestlé Global 2016). The company also announced that on a long term, it will change the recipes of their products targeting children to reduce the sugar content.

Simultaneously with publically announcing its devotement for Mexican consumers, Nestlé runs some of the most visible projects and initiatives aimed at educating consumers. For example, September 2014 to February 2015 Nestlé sponsored *Hermosa Esperanza* (Beautiful Hope), a weekly reality show in which eight families work with experts in nutrition in order to develop better eating and exercise habits. The type of programs that Nestlé is sponsoring or initiating is rather different than the ones promoted by the Mexican officials. The latter aim to constrain companies to produce healthier products and consumers to stop purchasing the unhealthy ones. Nestlé's initiatives appear to attempt to teach people about how their lives can be improved. This seems to enable consumers to take control over their lives and bodies, whereas the government's work aims to make them unable to make any mistakes. This way, Nestlé answers the pressure exercised by secondary stakeholders and capitalizes on its image based on the answers of its primary stakeholders.

The company has the financial means to adapt to the requirements/needs of its stakeholders and exploit the potential of the Mexican market. Less known brands are exposed to the same type of pressure and the question remains whether Nestlé's consumers will not switch to less expensive, non-branded products in the context of higher prices and restricted advertising. Once television becomes a restricted advertising channel for specific products, all the food operators will orient their efforts to less expensive conduits such as social media and point of sales promotion. In such a competitive and changing environment, the balancing act of managing expectations becomes more intricate. The bargaining power of Nestlé's secondary and primary stakeholders is growing faster than ever. To this end, Nestlé has to answer an increasing number of conflicting pressures and expectations raised by its stakeholders, whilst strengthening its position as a leading and/or ethical food industry operator.

References

- Alianza por la Salud Alimentaria – Actúa por la salud. (2016). Accessed: April 1, 2016, from <http://alianzasalud.org.mx>
- Bernhart, M., & Maher, S. (2011). *ISO 26000 in practice: A user guide*. Milwaukee: ASQ Quality Press.
- Brug, J., Oenema, A., & Ferreira, I. (2005). Theory, evidence and intervention mapping to improve behavior nutrition and physical activity interventions. *The International Journal of Behavioural Nutrition and Physical Activity*, 2(1), 2.
- CAMARA DE DIPUTADOS. (2016). Accessed April 1, 2016, from <http://www3.diputados.gob.mx>
- Chandon, P., & Wansink, B. (2012). Does food marketing need to make us fat? A review and solutions. *Nutrition Reviews*, 70(10), 571–593.
- Company History. (2015). <http://www.nestle.com>. [Online]. Accessed November 29, 2015, from <http://www.nestle.com/aboutus/history/nestle-company-history>
- de Ridder, D. (2012). Themed issue: Plans, norms, motivation, and cheating a little – The curious case of healthy eating. *Psychology Health*, 27(Suppl 2), 1–6.
- Hahn, R., & Weidtmann, C. (2012, October). Transnational Governance, Deliberative Democracy, and the Legitimacy of ISO 26000: Analyzing the Case of a Global Multistakeholder Process. *Business and Society*.
- Historia. (2016). <https://www.nestle.com.mx>. [Online]. Accessed April 1, 2016, from <https://www.nestle.com.mx/aboutus/historia>
- Instituto Nacional de Salud Pública (Mexico) (Ed.). (2012). *Encuesta nacional de salud y nutrición 2012: resultados nacionales*. Cuernavaca, Morelos, México: Instituto Nacional de Salud Pública : Secretaría de Salud.
- International Markets Bureau (IMB). (2013). *The Modern Mexican Consumer Behaviour, Attitudes and Perceptions Toward Food Products I. Agriculture and Agri-Food Canada, Canada, Market Analysis*, Mar.
- Investor FAQs. (2015). <http://www.nestle.com>. [Online]. Accessed November 29, 2015, from <http://www.nestle.com/investors/faqs>
- Martello, W. L. (2014). Wan Ling Martello, Nestlé SA, Chief Financial Officer discussing annual performance in 2014.
- Nestlé Global. (2016). <http://www.nestle.com>. [Online]. Accessed April 1, 2016, from <http://www.nestle.com/asset-library>
- OECD. (2014). *Regulatory Policy in Mexico*. Paris: OECD Publishing.
- World Health Organization. (2003). *Diet, Nutrition and the Prevention of Chronic Diseases*. WHO Technical Report Series. Geneva, Switzerland: WHO Press. Available at http://apps.who.int/iris/bitstream/10665/42665/1/WHO_TRS_916.pdf.
- World Health Organization. (2014). *Global Action Plan for the Prevention and Control of NCDs 2013–2020*. Geneva, Switzerland: WHO Press. Available at http://apps.who.int/iris/bitstream/10665/94384/1/9789241506236_eng.pdf
- Wiggins, S., Keats, S., Shimokawa, S., Alberto, J., Hernández, V., & Claro, R. M. (2015). *The rising cost of a healthy diet*. Chang. Relat. Prices Foods High-Income Emerg. Econ. Lond. Overseas Dev. Inst.
- Yisahak, S. F., Beagley, J., Hambleton, I. R., Narayan, K. M. V., & IDF Diabetes Atlas. (2014). Diabetes in North America and the Caribbean: An update. *Diabetes Research and Clinical Practice*, 103(2), 223–230.