



Weighing up the risks

Helena Broadbridge looks at emerging product safety issues for the convenience food industry

There is growing concern among leading institutional investors over the effects on financial value of a number of emerging issues for convenience food manufacturers, that is to say, of manufacturers of fast food and snack food characterised by relatively low cost, high energy density, low nutritional value and extensive marketing. The industry is facing unprecedented pressure both from health authorities and from consumers to address concerns over public health risks associated with the manufacturing, marketing and consumption of convenience food.

Recent high-profile lawsuits in the convenience food industry (as well as in the tobacco and now also the brewing industries) have centred on an absence of health warnings. Appeals to common sense are stalling certain obesity-related allegations, but the focus may shift to exposing toxicological risks associated with additives such as artificial preservatives, sweeteners, colourants and flavourants. Consumer groups in Europe are already calling on the convenience food industry, the EU and the Codex Alimentarius, the commission set up by the Food and Agriculture Organization (FAO) of the United Nations and the WHO that develops international food safety standards, to apply a precautionary approach in their risk analysis of food additives whose properties have been linked with allergies, cancer and behavioural problems in children.

As regulatory requirements on food labelling become tighter and more complex, convenience food

companies are also increasingly exposed to the risk of litigation and reputational damage over health claims. Unsubstantiated or misleading product descriptions such as 'light' and 'low fat' are among the slimming and weight-control claims targeted in new regulations currently considered by both the US Food and Drug Administration and the European Commission. Only claims that can be substantiated and gain European Food Standards Authority approval will be permitted at EU level. Fortified convenience food products are equally under scrutiny for potentially sending mixed messages to consumers.

Labelling and traceability

Investors' concern over the safety of GM content – and the potential financial impact of a consumer backlash – continues to generate shareholder resolutions at most large companies in the convenience food industry. Such resolutions rarely pass, but they usually make the media headlines. Failure to comply with GM labelling and traceability regulation not only raises potential legal liabilities but will also affect a product's marketability and sales in the EU, where controls on GM derivative products are more strictly enforced than in the US. However, consumer acceptability of GM content is perhaps the sine qua non for convenience food companies to gauge.

The industry's highly effective techniques for marketing to children are likely to be restricted in both content and contact. Intense advertising on television or in schools, for example, is believed to be a signifi-

cant contributor to a range of health risks among children. Such marketing may be restricted or even banned during children's peak television viewing times, and branded vending machines in schools may be removed, with potentially material effects on sales volumes and profits.

The commercial reality for the convenience food industry is changing. Investors are expecting companies to show stronger evidence of how they are managing material business risks arising from product safety concerns. Some companies will dismiss shareholder resolutions on product safety issues as infringements on management decisions (as several have argued in front of the US Securities and Exchange Commission). But investors may increase the equity risk premium for companies whose business strategy fails to incorporate a rethink in product development and marketing strategies or which are slow to train management in product safety standards and their legal enforcement. Companies with superior risk management performance are likely to outperform their competitors, while companies failing to anticipate and respond to changes in consumer and regulatory demands are expected to lose credibility in both law courts and markets. ■

Helena Broadbridge heads the team at CoreRatings specialising in the analysis of corporate risk management in the consumer sector. CoreRatings will be publishing a report on risk exposure and responses in the US and European convenience food industries early next year.
helena.broadbridge@coreratings.com