



**Rabobank**

# July Talking Points: Pivoting on Purpose

## Responding to Catalytic Events

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## Summary

Before the Covid pandemic, many food companies, both large and small, were already responding to calls to become a greater force for good in society, recognizing that the pursuit of profit could not be the sole purpose or only priority of a corporation. For the larger food companies, this largely manifested itself in their response to the growing public concern over the climate crisis – in part to regain consumer trust. The impetus to become a purpose-led company has accelerated this year as a result of two ‘catalytic events’ – the Covid pandemic and #BlackLivesMatter, while also having to deal with the existential threat of a global recession. During these tempestuous times, we note that companies have switched gears, to prioritizing social concerns over environmental ones. For the longest time, company executives have talked about wanting to get closer to their consumer, to understand them better and rebuild trust. Although not in a way they expected, the terrible events of 2020 provide a chance for these companies to do just that in a meaningful way, and inaction - not doing something - now runs the greater risk.

## The Need for Speed

Although, certainly in the case of the US, we are not out of the woods yet, my colleagues and I are increasingly finding that client conversations are turning to discussions around what the consumer landscape will look like post-Covid. These discussions generally focus around clusters of trends such as those that have speeded things up (for example, the move to ecommerce, especially direct-to-consumer opportunities); those that have gone into reverse (rediscovering the benefits of shelf-stable foods as well as home-baking) to those that have evolved (snacking at home rather than on-the-go). We have touched upon many of these topics in past editions and here we dig into one area my colleagues and I feel is particularly significant. That is, how the requirement for companies to become more ‘purpose-led’ has accelerated and how this has been triggered by what Charlie Arnot, CEO of The Center for Food Integrity calls impossible to ignore “catalytic events.”

## Pivoting on Purpose – Prioritizing Social Concerns

That companies have a reason to exist, a purpose, is of course not new; one has only to look at their mission statements to reveal what, how and why they do what they do. Kellogg’s is as fine as any, “Our vision is to enrich and delight, through foods and brands that matter. Our purpose is to nourish families so they can flourish and thrive.” Similarly, the importance of valuing all stakeholders (and not just shareholders), to be a good corporate citizen and to do the right thing also has a long history; the idea of the triple bottom line (social, environmental and financial) has been around for over 25 years. But what seems to have changed is how the emphasis on a company’s purpose has become ever more prominent. For example, one of the ‘big surprises’

from last year's readership survey was how 'purpose' as a term, as well as the actions that big food companies were undertaking, had come to the forefront and made 2019 something of a landmark year for purpose-led initiatives. As one reader commented, "I have been amazed by the speed and intensity at which consumers are now asking and holding accountable companies to be the leading force for change on crucial societal issues."

Arguably the most profound change last year was when the US Business Roundtable essentially redefined the purpose of a corporation as to benefit all stakeholders – customers, employees, suppliers, communities, and not just shareholders. In short, shareholder value creation (profit), was no longer to be viewed as the key goal, but as a goal among many, including Environmental, Social and Governance (ESG) issues (the grouping of non-financial factors by which companies are increasingly being judged by investors).

Earlier this year, at the pre-Covid CAGNY conference, Big Food companies had clearly been listening to their customers, the wider public concern (and of course, Greta) and talked up the need to have purpose, and purposeful brands. At CAGNY, most companies focused on environmental concerns, such as climate change and sustainability issues. This included what they were doing in terms of climate change, how they fared in sustainability rankings, and their precise targets around sustainability issues such as reducing waste and lowering their carbon footprint. In short, they focused on the environmental, the 'E' in ESG.

Food companies have realized that to address some of the fundamental constraints to their businesses they had to regain the trust of consumers and standing for issues that resonated with their customers was a way to do that. For quite some time, big food and beverage companies have been under pressure, increasingly made irrelevant by new brands that appeal to younger generations with whom they had lost trust. In addition to tapping into consumer demand for health and wellness, convenience, etc. of relevance here, they were often backed up by a strong mission statement that promoted a wider social and environmental agenda. For example, Oatly's purpose is to make it convenient for the consumer to turn food "into personal moments of healthy joy without recklessly taxing the planet's resources in the process."

But what we have seen during the Covid pandemic has been a pivot to the "S", as in Social concerns in ESG, as companies reposition themselves, attempting to show empathy and do the right thing by supporting their communities and ensuring the health and safety of their employees. As brand builder Ed Cotton put it recently, "every brand is in the public service business right now." Examples we have seen include companies increasing wages, safety measures and benefits (such as free meals and transportation) for employees in factories and distribution centers, greater flexibility in how staff work, donating to food banks and food delivery organizations, supporting business partners across the supply chain, including extending payment terms (Unilever for example has set up a USD 500m line of credit to small and medium-sized businesses in their supply chain).

That is not to say that companies are abandoning their environmental commitments, such as the near-universal commitment by the largest US food companies to transition to 100% recyclable or reusable packaging by 2025. Only last month, for example, Unilever launched its climate plan, which includes a commitment to be carbon-neutral by 2039 across their supply chain, literally, from the sourcing of the materials to the point of sale (where products, all 70,000 of them, will have information on their climate footprint included on their labels.). And in late June, Danone, 'toppled the statue of Milton Friedman' by being the first company in France to become an *Entreprise à Mission*, taking the company even closer to becoming the world's first B Corporation (its largest subsidiary, Danone North America, is the world's largest Public Benefit Corporation) and prioritizing the company's ESG agenda on a par with maximizing shareholder returns.

## Walk the Talk – Taking a Stand on Racism

The second catalytic event has been in response to the police killing of George Floyd on 25 May in Minneapolis, MN., and the subsequent #BlackLivesMatter protests (the largest movement in the country's history), in which companies have been swift to make their voices heard. As Doug McMillon, CEO of Walmart and Chairman of the Business Roundtable said, "Our employees, customers, and communities are looking to us to act now," recognizing that companies and their brands have a responsibility to take a stand on racism and injustice. Examples of action include:

- a) **Public declarations denouncing racism and Injustice.** Here are just a few:
  - "We will confront racism to create a more inclusive and just world. We stand in solidarity with our Black partners, customers and communities. We will not be bystanders." Starbucks, Twitter.
  - "To our Black employees, and all people of color in our communities, we proudly say: we support you, we believe in you, and we stand in solidarity with you." Michele Buck, President and CEO, The Hershey Company.
  - "Systematic racism and social injustice have to be eradicated. Business has a critical role to play in creating an equitable society which is intolerant of intolerance." Alan Jope, Unilever CEO.
  - "By rejecting racism and injustice, our hope is to make our organization, our communities and our world a better place for all people." Rabobank.
  - "We understand that we will never be able to understand completely. But we stand with you and we will not let you do this alone. You were never meant to. #BLM." Sal's Pizzeria, Brooklyn.
- b) **Retiring brands that perpetuate racial stereotypes.** Beyond words, one tangible result has been the long overdue jettisoning of brands whose origins are based on racial stereotypes such as PepsiCo's "Aunt Jemima", Mars Inc's "Uncle Ben's, and ConAgra Brands' "Mrs. Butterworth." These brands have been long criticized for their racial stereotypes, and the events of the summer have proven a wakeup call that these brands, "may be interpreted in a way that is not wholly consistent with" their company values. What was indefensible has well, become indefensible, and shortly to be consigned to the "What were we thinking?" section of their corporate museums.
- c) **Suspension of media spend on social media.** The #StopHateForProfit campaign, organized by a coalition that includes the Anti-defamation league and the NAACP, calls upon brands to stop advertising on Facebook for the month of July to protest against the company, "allowing racist, violent and verifiably false content to run rampant on its platform." At the start of July, over 400 companies had signed up, including Unilever, Starbucks, ConAgra Brands, Chipotle, Coca-Cola and PepsiCo (some going as far as to suspend adverts on all social media). In words that resonate with the discussion here, Unilever said, "continuing to advertise on these platforms at this time would not add value to people and society."

## An End to Fence-Sitting

For the past few years, the larger food companies have been on a mission to try to reconnect and understand their consumers better, to create a relationship and regain their trust. One can literally cite any one of the CEOs from the large food & beverage companies on the need to get ever closer to the consumer – "to be evermore consumer centric," to understand their consumers "at the granular level," and even to "know our consumers almost as much as they know themselves."

Although not in a way they expected, the terrible events of 2020 provide a chance for these companies to do just that in a meaningful way (and rise above criticisms of opportunism and virtue signalling). Again, this refers back to last year's survey, when some readers argued that building trust is about taking a stand and companies should, "get way out in front and lead." Big Food can solve big problems and do things at scale because that is "an advantage that they have

over the smaller players." And not doing something now possibly runs the greater risk. As Kevin Ryan at Malachite persuasively wrote in his newsletter, "the reason we are seeing so many corporations vocalizing their stance is because they can't afford not to have a relationship with consumers." Companies cannot crave intimacy and pitch themselves as authentic with their consumers and then "sit on the fence" on social issues that have entered the mainstream and which consumers feel passionate about. At the risk of making this sound too mercenary, authenticity and intimacy come with a price.

# Imprint

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