



Kraft Foods, Inc.:

The cost of advertising on children's waistlines

TEACHING NOTE

Purpose of the Case Study

The purpose of this case is to help students gain insight into various corporate communication problems and how those problems affect the profitability and sustainability of the company. In particular, this case will offer students an opportunity to:

- Identify the business problems associated with the specifics of the case.
- Identify various stakeholders in the case.
- Identify major and minor issues in the case.
- Identify relevant assumptions in the case.
- Identify various solutions to the case.
- Select and defend the most applicable solution(s) to the problems and why this is the best solution. This section may also require the student to explain why the other solutions were not chosen.
- Develop a well constructed implementation plan in accordance with the selected solution(s).
- Identify the best ways to communicate the solution and implementation of that solution to each of the stakeholders. *Note: It is quite possible that different channels of communication may be needed depending on the status (direct, indirect or secondary) of each of the stakeholders.*
- Develop a detailed case write-up to explain each of the items above.

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.

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The Business Problem

The central business problem in this case is the public perception regarding Kraft and their advertising tactics regarding children and how that perception may affect the current and future profitability as well as the advertising strategies of the company.

Forecasting the Best Possible Outcome

The best possible outcome in this case would be for Kraft to develop a plan that would allow them to stop advertising unhealthy foods to children but maintain their profitability in the process. This outcome would have all of the stakeholders, discussed in the next paragraph, working together to stop this type of advertising while promoting healthier eating at the same time. This would also allow Kraft to gain customers in their healthier product lines as well as new customers who may have previously been under the impression that all of Kraft's products were unhealthy. In addition this plan would also eliminate the need for government regulation and hopefully begin to have a positive influence on the overall health and welfare of consumers everywhere.

Identifying Critical Stakeholder Issues

Because of the size of Kraft Foods and the fact that their products are in 99% of US households, it is pertinent that Kraft take a genuine (and concerned) look at the affects their advertising strategies are having on their consumers and more importantly the children of those consumers.

Primary Stakeholders:

Consumers: Since the principal stakeholders in this case are Kraft Foods' consumers and their families, it is important that Kraft develop a plan of action that will not only satisfy the consumers (parents), but one that will also have a positive affect on the health and welfare of the children of those consumers.

Kraft Shareholders: Since Kraft shareholders constitute another primary stakeholder group, the company must develop alternative advertising strategies that will promote the health and welfare of the consumers without destroying their profitability in the process.

Indirect Stakeholders:

Special Interest Groups: In addition, Kraft's plan must also satisfy the various indirect stakeholders such as Non-Governmental Organizations and single-issue special interest groups. Special interest groups can be a significant adversary or an important ally, depending on how the

situation is handled by the company. Kraft must find a way to make special interest groups a part of the solution, keeping them informed and, if possible, on the side of Kraft.

Government Agencies: Acting in response to the stated interests of public health and safety groups, as well as government agencies will also be important to the company as they craft a solution to this issue. As with the special interest groups, the company must find a way to make the government agencies part of the solution. This will not only provide Kraft an important measure of borrowed credibility, it may also help to deter, or soften, any additional proposed governmental regulation.

Competitors and Partners: Being a first mover in the fight against advertising unhealthy products to children, Kraft must demand the same type of behavior from their business partners and strategic allies. By doing so, they may be able to force their competitors to do the same. Note: If Kraft is successful, they must be willing to help competitors in implementing similar strategies. This will show a genuine interest in the welfare of the consumers.

Possible Solutions and Implementation Strategies:

In order to achieve the best possible outcome described above, the solution must truly provide sound, reasonable courses of action that address all aspects of the business problem(s) at hand as they relate to each of the stakeholders. Kraft must also be able to implement the solution in an efficient and productive way that provides benefits to all stakeholders involved. A quality solution will contain the following recommendations:

1. Kraft must be proactive in their response to the problem. They have already taken the first step by forming the advisory council. Since they have now heard the findings of the Advisory Council, they must act quickly with the intention of making important changes in the way they advertise their products. By taking the initiative and making changes on their own, Kraft will be able to capture the following benefits:

- Being proactive in changing advertising policies toward children, Kraft will set precedent and gain the trust of consumers as it relates to their children's welfare.
- Kraft will also have the opportunity to quickly begin helping consumers make better choices about diet and health.
- Kraft will also be able to enjoy the positive publicity that normally comes with voluntary policing on health and welfare matters such as this.
- This proactive stance may also lead other companies to do the same, thus decreasing the prospect of additional government regulation.

2. Kraft must genuinely seek to act in the best interest of both the consumers and the children of those consumers. Acting in the best interest of consumers will ultimately promote a more healthy lifestyle and involve some or all of the following courses of action:

- Work with health and nutrition experts to develop nutrition standards that will be used in determining the nutritional value of different products and what those values actually are.
 - Work with experts in the area of child psychology to develop guidelines for advertising strategies that are most appropriate for the children in question.
 - Bring together nutritionists and psychologists to determine which products fall in which category.
 - Develop more conscientious advertisements for products that are deemed to be “unhealthy.”
 - Develop more positive advertising strategies for products that are deemed healthy and of high nutritional value and promote those products to children in a way that satisfies established guidelines.
 - Set up a research team to explore how the company can make some of its less healthy products more nutritional.
 - Set up a division of Kraft that has the responsibility of promoting an all-around healthier lifestyle. *Note: This could be done with such things as healthy eating seminars, health tips on their web site, healthy meal preparation tips and community outreach programs designed to promote healthy activities.*
- McDonald’s Corporation has a Vice President for Healthy Living.

3. Kraft must work with the media and help them to understand the reasons behind Kraft’s decision to develop health and advertising guidelines regarding their products, as well as their decision in supporting healthier lifestyles. This action will benefit the stakeholders in the following ways.

- Bring the importance of health and nutrition to consumers, allowing them to make more informed decisions on dietary issues.
- Provide various health-related watchdog groups a platform from which to promote their causes, providing those causes are actually in the public interest.
- Allow Kraft to generate a more positive corporate image in the eyes of the public. *Note: Kraft must be careful to be genuine in their reasoning. They simply cannot spend time and money telling everyone how they made these changes voluntarily and what a great company they are for doing so. The media and various interest groups will take care of that if they see Kraft is dedicated to this cause. Kraft will need to spend their time and money in making sure this change done correctly and in the best interest of the consumer.*

4. Kraft must work with the various interest groups in order to better understand their concerns and goals. This will benefit stakeholders by:

- Giving the interest groups a partner in promoting their cause and also hopefully entice other companies to do the same.

- Allowing Kraft to benefit from having interest groups on their side rather than becoming the adversary of these groups.
- Promoting healthy lifestyles for consumers who look to these groups for help.

5. Kraft must work with the various government agencies that have direct health responsibilities. Agencies such as the FDA, U.S. Department of Health and Human Services and the Food and Nutrition Service of the U. S. Department of Agriculture. This will benefit stakeholders in the following ways:

- Allow Kraft to set precedent in the eyes of government agencies, thereby reducing the need for regulatory oversight.
- Demonstrate to various government agencies an example of what socially responsible companies do with regard to advertising to children.
- Give consumers additional trust in what Kraft is doing and hopefully inspire other companies to do the same. The result would be an overall healthier attitude for all.

Communicate the Solution

Communication is at the heart of any well crafted plan. In this case, Kraft Foods has two major types of communication to deal with, internal (communication to employees, managers and executives) and external (communication to parties outside the company), each of equal importance in their own way.

Internal Communication:

Internal communication is perhaps the most important communication of all, especially in the planning and implementation stages of a new or changing initiative.

Internal communication is important because it deals with communicating the goals, expectations, direction and reasons for implementing the initiative to those responsible for getting the work done. In addition, effective employee communication can also foster a more cohesive corporate structure as it relates to employee morale and belief in the goals of the company. For internal communication to be effective, as it relates to this case, it will contain the following goals:

- **Two-way Communication from both management down to employees, and from the individual employees up to management.**
 - o Consistent top-down communication will help employees understand the reasons for Kraft's decision to change their advertising policies toward children, thereby giving the employees a clear and consistent picture of where this initiative is going and its goals.

- o Consistent bottom-up communication will enable management to gain a better picture of how the implementation of the initiative is really going as well as promote a sense of belonging and importance to the change in the eyes of Kraft employees. Employees that feel they are an important part of the changes are more likely to work toward the goals of the change.
- **Effective Communication Channels:** Effective communication channels will consist of some or all of the following methods:
 - o Face to face meetings between Kraft supervisor and employees at all levels.
 - o Online communication. *Note: This form of communication is often seen as faceless and should only be used to notify employees of particular details once direct communication lines have been established.*
 - o Employee publications
 - o Visual communications such as television type informative sessions
 - o Employee grapevine. *Note: Although an informal communication channel it can have an effect on the morale and understanding of the issue at hand.*

External Communication:

External communication is also an important aspect of communication, especially, as in this case, new or changing initiatives that directly affect stakeholders outside the organization. External communication deals with how information is conveyed to those stakeholders outside the organization. Effective external communication, as it relates to this case, it will:

1. Be Consistent: When communicating the reasons for the actions they have taken, Kraft must be consistent with regard to communicating those reasons with all of the stakeholders.
2. Be Innovative: Kraft must use the available media outlets to help promote the initiative, but not count on the media to get the entire job done. Kraft must also search out innovative ways to get their message across. This may come in some or all of the following forms:
 - Use newsletters of stakeholder organizations such as interest groups.
 - Explain and educate employees on how to properly communicate the initiative to members outside of Kraft. *Note: Employees not only provide channels of internal communication but external communication channels as well.*
 - Partner with other companies who may be looking to do the same advertisement policy changes. Help them achieve their goals by assisting them in their initiative to reduce advertising to children.

Applying the Page Principles

The vision articulated by Arthur W. Page (Vice President, Public Relations, AT&T, 1927 to 1946) offers a template for the practice of corporate communication in a crisis. Listed below are Page's seven principles and description of how Kraft's application of each.

Tell the Truth: Kraft must keep all stakeholders informed and aware of changes and difficulties throughout implementation of this initiative. They must also provide an accurate and truthful account of what Kraft stands for as it relates to this initiative and the company's character, ideals and best practices in general.

Prove It with Action: Words are simply not enough; Kraft must follow up their proposed plan with action. This would begin with pulling all of their advertisements directed at children for products that do not meet the standards they have set forth.

Listen to the Customer: Kraft cannot, on their own decide what is right and wrong as it relates to advertising to children. They must also solicit help and discussion from customers themselves in order to facilitate proper implementation and to make sure this initiative adequately addresses the needs of the consumer.

Manage for Tomorrow: While it is important that Kraft take immediate steps to implement the changes they cannot overlook the fact that business must go on and the future is the more important era and must manage the business as so. This would include researching and developing more healthy foods for future consumption as well as acceptable advertising tactics to promote these foods and the rest of their product line.

Realize a company's true character is expressed by its people: Kraft has a large number of employees worldwide. Kraft must realize that its employees are an extension of the company and therefore must uphold the values that the company represents at all times.

Conduct Public Relations as if the Entire Company Depends on It: For large consumer goods companies such as Kraft, everything they do is under scrutiny. It is therefore important for the company to make public relations a major part of this initiative.

Remain Calm, Patient and Good-Humored: When faced with the type of problems this case presents, and having made great strides in correcting those problems, Kraft must realize that there will always be critics out there regardless of how proactive the company is. Kraft must be patient and remain poised knowing that they are acting in the best interest of the consumer.

Teaching Plan

Timeline for Teaching Plan:

One week Prior to Discussion: Distribute the case for the students to read and ask them make detailed notes from the list of discussion questions provided at the end of the teaching note. Some examples are:

1. Business problem at hand
2. List the direct, indirect and secondary stakeholders
3. List of issues for each stakeholder

First class session: This portion of class will be used to review the facts and open the floor for discussion about how the students feel about the case and the issues surrounding it. Discussion should center on the following points:

1. What is the actual business problem in this case?
2. What are the critical issues of this case?
3. Who are the stakeholders (primary, secondary and indirect) in this case?
4. Does Kraft need to respond to all stakeholders in the case?
5. Regarding answer to question 4, why or why not?
6. What are Kraft's options concerning its marketing tactics?
7. How do the students feel about the case?
8. Do they agree with the findings of the advisory council?

Students spend one week doing their own case write-up

Second class session: This class will be used to solicit individual answers and recommendations from the case write-up of each individual student. This class would also include a summary of the case and what steps Kraft actually took

Alternative Teaching Plan

Instructors may wish to do the case in sections as a series of homework assignments designed to get student thinking about each of the issues individually before attempting to do the entire case analysis. For example:

- Each day one or two of the discussion questions would be assigned to the students.
- Those assignments would be collected at the beginning of the next class period for grading.
- Continue this process until all discussion questions have been answered.
- Students spend one week doing their own individual case write-ups.

Discussion Questions

1. What is the central business problem in this case?
2. What are the critical issues associated with the case?
3. Who are the stakeholders (primary, secondary and indirect) in this case?
4. Does Kraft need to respond to all stakeholders in the case?
5. Regarding your answer to question 4, why or why not?
6. What are Kraft's options concerning its marketing tactics?
7. What communication channels should Kraft use to communicate to its customers?
8. What communication channels should Kraft use to communicate to its employees?
9. What are some of the positive implications of the case?
10. What are some of the negative implications of the case?
11. Who is Kraft's key audience: critics, agencies, parents, children, non-parent adults?
12. Should the company even target a particular audience?

Actual Timeline of Events

2003: McDonald's Corporation case dismissed, but food companies are still nervous about the possibility of being sued for obesity in the way McDonald's was.

September 2003: Kraft forms the Worldwide Health & Wellness Advisory Council.

March 2004: Meeting with the advisory council that leads the company executives to decide on reforming their advertising policies.

January 2005: Kraft announces it will stop advertising certain products to children under twelve.

April 2005: Kraft comes out with Sensible Solutions to promote healthier products.

December 2005: Institute of Medicine comes out with studies linking food marketing to child obesity.

A detailed description of the Kraft Sensible Solution plan can be found on their web site at <http://www.kraft.com> under the various subheadings as well as in many print and periodical issues. Since the purpose of the case is to allow students the opportunity to develop their own course of action and implementation plan, it is suggested they not access this information prior to developing their case write-up.