

WAL-MART'S HEALTH MOVE MAY LEAD TO PRESSURE ON PRODUCE PRODUCERS

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What are we to make of First Lady Michelle Obama's decision to join with Wal-Mart executives to announce a new Wal-Mart program that, it is claimed, will offer more healthful foods, less expensive produce, clearer nutritional labeling and more stores in "food deserts."

This endorsement of the commercial activities of a private company made for an unusual announcement, as *The Washington*

Post explained:

In a glowing endorsement of the type that first ladies have rarely, if ever, made of major corporations, Obama called Wal-Mart's effort "a huge victory for folks all across this country," and said it has the "potential to transform the marketplace."

But does it?

Wal-Mart identified five key elements to its program:

1. Reformulating thousands of packaged food items by 2015 by reducing sodium 25 percent, added sugars by 10 percent and by removing trans fats;

2. Making healthier choices more affordable, saving customers approximately \$1 billion per year on fresh fruits and vegetables through a variety of sourcing, pricing and transportation and logistics cost-saving initiatives;

3. Developing strong criteria for a simple front-of-package seal that will help consumers instantly identify food options that are truly more healthful options;

4. Providing solutions to address food deserts by building stores in underserved communities that are in need of fresh and affordable groceries; and

5. Increasing charitable support for nutrition programs that help educate consumers about healthier food solutions and choices.

Yet these points raise at least as many questions as they answer.

The decision to give more charity for nutrition education is nice enough, but hardly seems likely to be transformational. It even seems a bit distasteful as Wal-Mart did not promise to increase overall charitable giving, and so the promise comes across as a kind of pandering. It is as if the way to get the First Lady to endorse a private company's efforts is to agree to her charitable priorities.

Equally, the development of a front-of-the-package seal seems more a triumph of hope over experience. The experience with these seals is that they have minimal, if any, impact on obesity or any other health problem.

The commitment to build stores in "underserved communities" is quite odd. Wal-Mart has attempted to build stores in such areas for years and has been blocked by unions conspiring with mostly Demo-

cratic politicians. But Wal-Mart didn't announce it will accept unions or increase wages, and Michelle Obama didn't announce that the President was prepared to buck the unions so it is not clear how this announcement can lead to very much.

The reformulation of products seems like it could be meaningful... until we remember that manufacturers and retailers don't actually force-feed anyone. To the extent that consumer preferences are shifting to more healthful formulations, all Wal-Mart is saying is it is doing the reformulations necessary to keep selling product. To the extent the reformulations are not driven by consumer demand but, instead, are driven by an effort to appease the First Lady or to satisfy the nutritional police at places such as The Center for Science in the Public Interest, which applauded Wal-Mart's actions, one suspects that the reformulated products will sell less while other retailers pick up the slack of selling the products people want to buy.

The promise to reduce the prices of fresh fruits and vegetables is perhaps the oddest part of the announcement. First, the promise is to save \$1 billion a year, but Wal-Mart oddly neglects to mention a percentage by which it expects to drop prices. Wal-Mart doesn't break out its produce sales, but it did announce last year that groceries now account for about

51 percent of domestic sales. That means that in its fiscal 2010 year, groceries accounted for about \$132 billion in sales. If produce accounts for 10 percent of groceries, we are looking at about a \$15 billion produce category if you factor in growth in store count. So a billion dollars a year in savings is significant, about 6.6 percent.

Now Wal-Mart made clear that it intends to lower prices not by leaning on beleaguered produce farmers but by achieving supply chain efficiencies. This seems like a very large amount to take out in waste, and one notes that since fruit and vegetable prices fluctuate, there is no way to ever determine if Wal-Mart will honor this commitment. The one specific program mentioned — to buy direct from farmers — would likely cost more in administration than could ever be saved by reducing fees paid to marketing agents.

The bigger question, though, is whether this makes any sense. After all, if there is waste in the supply chain, then surely Wal-Mart would have been fighting to gain these efficiencies anyway. So what is Wal-Mart saying? Is it telling its shareholders that it will be delivering a sub-standard return? Is it telling customers that it will raise prices on other items to compensate for low margins on produce?

Looked at positively, it is a return to Wal-Mart's traditional vision of itself as the buying agent for the consumer. But what this has to do with health is very unclear, and if Wal-Mart is really serious about cutting produce prices by almost 7 percent, it will, almost inevitably, start leaning on producers... and hard.

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