

Ozempic for weight loss is disrupting companies' business model

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As sales of appetite-suppressing drugs such as Ozempic and Mounjaro skyrocket, corporate America is grappling with the question: How does a less-hungry, less-impulse-prone consumer affect my business model?

Companies from Walmart Inc. to Conagra Brands Inc. are weighing how much to factor the [diabetes drugs](#) known as GLP-1s, increasingly being used for weight loss, into their strategies. Moves they make now could reverberate for years to come, so the pressure's high to get it right.

"Companies will overreact. The smart money will take action, but act slowly," said Gary Stibel, chief executive officer of New England Consulting Group, which advises consumer and health care companies.

John Furner, CEO of Walmart's U.S. operations, recently said the retailer is seeing a "slight pullback in the overall basket" of food purchases as a result of the drugs, but added it's too early to draw definitive conclusions. Conagra CEO Sean Connolly told investors recently that his company's scientists are looking at the data, and the maker of Slim Jim and Swiss Miss could offer smaller portions in the coming years if that's the way preferences evolve.

Companies are intensifying their scrutiny of the drugs amid a growing sense in the scientific community that the treatments represent a real breakthrough. Scientists have studied the GLP-1 hormone for more than three decades, but the newer, more potent drugs such as Wegovy and Mounjaro have opened the door for new discoveries and potential use beyond obesity and diabetes.

Brand-new territory'

"We're still learning what else it might be good for," said Daniel Drucker, a co-discoverer of the GLP-1 hormone who works as a professor of medicine at the University of Toronto. "This is brand-new territory."

In the business world, most executives are still taking a cautious approach.

Adnan Durrani, CEO of Saffron Road, which makes frozen meals, chicken wraps and crunchy-chickpea packaged snacks, said snack companies "are talking about making smaller pack sizes and things like that, and that's kind of nutty thinking because it's just too early to know how much it's going to impact consumer behavior."

He recalled the olestra fad of the 1990s, when the fat substitute rapidly invaded the food aisle before being discarded due to its unpleasant side effects.

Bill Chidley, co-founder of brand consultant ChangeUp, cited the "whipsaw effect" that such trends can create, recalling SnackWell's fat-free and low-fat cookies, which have now disappeared from the market. "Now, all of sudden you've got a product that is totally out of position," he said. "The world flipped over."

Atkins diet

The Atkins Diet, which restricts intake of carbohydrates and gained popularity in the early 2000s, is also instructive. It fueled a whole category of products, including low-carb ketchup, ice cream and soft drinks. American Italian Pasta Co., which at the time was the largest U.S. pasta maker, and Krispy Kreme were pummeled by the diet, while Interstate Bakeries Corp., which was then the maker of Twinkies, cited the trend when it filed for bankruptcy in 2004.

But by 2005, companies including General Mills Inc. were reversing course as the diet's popularity faded amid a lack of evidence it achieves durable weight loss.

"We've lived through what I think turned out to be a fad that we predicted would be a fad," Richard Rosenfield, then an executive at California Pizza Kitchen, said in 2005. "It never seemed to affect our

business. We did great through that craze."

Nonetheless, remnants of the Atkins Diet still linger: Chipotle Mexican Grill Inc. has burrito bowls for the carb-conscious that are now labeled as Keto and Paleo friendly. Starbucks Corp. sells high-protein boxes with cheese and eggs.

The experience could prove instructional today as analysts recalibrate their projections based on the expected impact from the drugs, which have long been used to treat diabetes but are increasingly being taken for obesity and [weight loss](#). Walmart, for example, may want to think twice before it dramatically shrinks its grocery section.

Even so, recent findings are eye-opening. A survey of GLP-1 users by Jefferies showed that more than 40% of respondents said they were eating out less. A similar percentage reported ordering less when they did. About 70% said they're eating less overall, and roughly the same amount reported "increased awareness of nutritional benefits for foods."

Based on the results, Jefferies analysts say packaged-food companies including Campbell Soup Co., Hershey Co. and Post Holdings Inc. could be adversely affected. But the picture isn't so clear, with the analysts also pointing out that about 60% of respondents intend to stop using GLP-1s once they reach their target weight.

"So the question remains if the new eating habits will continue once the drug usage fades," they wrote.

Usage patterns

The usage patterns are another unknown. Patients often regain weight once they've stopped taking the drugs and experts say they may need to be on the medications for the rest of their lives to keep weight off

permanently.

Bank of America analysts also projected risks in snacking and beverages, given the GLP-1s lower appetites and also appear to reduce the impulse to drink.

It isn't just the obvious food-related categories that could be disrupted. Weight loss from GLP-1s could drive wardrobe revamps, according to Bank of America, particularly among the affluent who can budget for these medications, which currently cost more than \$1,000 a month. Plus-size retailers such as Torrid Holdings Inc. could see sales decline, while Lululemon Athletica Inc. and Hoka sneaker parent Deckers Outdoor Corp. could benefit from healthier lifestyles.

Jessica Ramírez, an analyst at Jane Hali & Associates, said the pandemic provides a recent potential case study, noting that after COVID restrictions eased, many consumers gained a lot of weight, while others shed it. "They had to replenish their wardrobe," Ramírez said, noting that apparel companies didn't have an issue adjusting their offerings.

Companies now face the daunting task of weighing the evolving data to determine the right strategy.

"We always go through these cycles of a new miracle drug, a new miracle food ingredient," said Saffron Road's Durrani. "It's really early days."

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