



RAW DEAL: School Beverage Contracts Less Lucrative Than They Seem

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Summary

While contracts between beverage companies and schools have proliferated since the mid-1990s, the provisions of those contracts and the amount of revenue they generate for schools largely have been kept secret.

This is the first national study of school beverage contracts. We analyzed 120 school beverage contracts from 16 states.

We found that school beverage contracts generate an average of \$18 per student per year for schools and/or school districts. We also found that schools/districts in various states and cities have negotiated very different deals with the same companies. Revenue to schools/districts ranged from about \$0.60 to \$93 per student per year.

Many schools are getting a raw deal; the majority of schools/districts had total annual revenues of less than \$20 per student. Only one small high school had total annual revenue of more than \$50 per student. School officials would benefit from assistance with negotiating more favorable contracts and higher commission rates.

Schools/districts earn revenue through a percentage commission on beverage sales. Many also obtain lump sum “cash advance” payments from beverage companies. On average, high schools earned more revenue from commissions on beverage sales than from cash advances; among elementary and middle schools, the reverse was true. Cash advances provide an incentive for schools to sign a contract with a certain beverage company and to agree to contracts that span longer time periods.

Beverage companies are not giving money to schools – they are taking it. The majority (67%, on average) of revenue generated from school beverage sales goes to beverage companies rather than to the schools, making beverage vending an inefficient way for schools to raise money. Children (and their parents) have to spend one dollar in order for their school to raise 33 cents. Alternatively, fundraisers in which schools sell products, such as gift wrap and candles, usually provide schools with profit margins of about 45%,¹ though the revenue to the school is determined by the volume sold.

Of the contracts we analyzed, 111 (93%) were exclusive to a single company, i.e., the contracts prohibited other companies and vendors from selling similar beverages in the schools/districts. Exclusive beverage contracts enable companies to market and sell their products in schools free from competition, allowing them to maximize both current and future beverage sales and to cultivate brand loyalty.

School beverage contracts contain provisions that allow beverage companies to market their products in schools. Beverage companies promote their brands and products to students on school signage; the front and side panels of vending machines; book covers; logos on sports equipment, scoreboards, and cups; and other through other means. Many of the contracts include penalties that are triggered when schools break the mar-

keting provisions of their vending contracts. Penalties related to beverage marketing are similar to penalties that schools would incur by failing to meet anticipated sales quota. Such strong marketing penalties suggest that beverage companies view the marketing of their products in schools as being as valuable as the revenue generated through school beverage sales.

Increasingly, schools are being required to stop selling soda and other sugary drinks by their local school district wellness policies or through state legislation. Although the amount of revenue raised by selling low-nutrition beverages in schools represents a small fraction of a school's overall budget, this revenue is valued by schools because it is a flexible source of funding available for meeting program needs at their discretion.

While some have raised concerns that school nutrition policies will result in lost revenue, schools are finding they can make money without selling low nutrition beverages. The U.S. Department of Agriculture (USDA) and Centers for Disease Control and Prevention (CDC) looked at 17 schools and districts that measured revenue before and after improving the nutritional quality of their offerings. They found that 12 schools/districts increased revenue and four schools/districts reported no change in revenue.² The food service department of the one school district that lost revenue later saw its revenues increase to surpass previous levels.³

Schools, state lawmakers, and members of Congress who are considering replacing soft drinks in vending machines with healthier options should be reassured by our findings. In most cases, the revenue generated by soft drink sales in schools is modest and could be replaced by the sale of healthier beverages or by alternative fundraisers that do not undermine children's diets or health. For numerous suggestions of healthy school fundraisers, see the Center for Science in the Public Interest's report *Sweet Deals: School Fundraising Can Be Healthy and Profitable* at www.cspinet.org/schoolfundraising.pdf.

Introduction: Scope of the Problem

Between 1980 and 2002, obesity rates have tripled among school-aged children (6 to 19 years old).⁴ Unfortunately, many school environments promote foods and eating behaviors that contribute to obesity. Consumption of sugar-sweetened beverages, such as soft drinks, imitation fruit juices, sweetened iced teas, and sports drinks, has been identified as a risk factor for obesity in children.⁵

Through exclusive contracts between beverage companies and schools or school districts, sugary drinks are widely available for sale in U.S. schools. School beverage contracts help to create an environment that promotes the consumption of sugary drinks and cultivates brand loyalty, which can lead to a lifetime of sugary drink consumption.

Many schools have been reluctant to give up revenue from soft drink sales, but are being prompted to do so by many school districts' local school wellness policies and state legislation and regulations. Many of the nation's largest school districts (e.g., Boston, Chicago, District of Columbia, Las Vegas, Los Angeles, Miami, New York City, Philadelphia, San Francisco, and Seattle) prohibit the sale of soft drinks in schools. In 2005, 200 school foods bills were introduced in 40 states.⁶

The Allure of Schools to Food Marketers

Food and beverage companies find schools to be a very desirable venue for marketing their products. Schools offer easy access to children; children spend many of their waking hours in school. Also, kids consume an estimated 35 to 50 percent of their daily calories during the school day.²⁰ At school, children make food choices without parental guidance to help steer them toward healthy choices. Schools also provide an "uncluttered" marketing environment. Finally, school-based marketing adds credibility to beverage companies' activities by associating a company's name and products with trusted schools or teachers.

Sugar-Sweetened Beverages and Childhood Obesity. Sodas and fruit drinks combined are the leading source of calories and added sugars in the diets of teenagers.⁷ Children who consume more soft drinks consume more calories (about 55 to 190 calories per day) than kids who drink fewer soft drinks.^{8,9} In addition, a study conducted by Harvard School of Public Health found that for each additional soda or juice drink a child consumes per day, the child's chance of becoming overweight increases by 60%.¹⁰ Between 1977 and 1996, soft drink consumption among 12- to 19-year-old boys increased from an average of 7 ounces to 19 ounces per day. Among 12- to 19-year-old girls, soft drink consumption doubled from an average of 6 ounces to 12 ounces per day.¹¹

Decreasing the consumption of sugar-sweetened beverages by overweight adolescents has been demonstrated in one study to result in a decrease in the body weight of some participants.¹² In addition, a health-education program encouraging elementary school students to decrease soft drink consumption reduced rates of overweight and obesity.¹³

Furthermore, the consumption of sugar-sweetened beverages can displace healthier beverages, like low-fat milk and juice, from children's diets.^{8,9,14,15,16}

Sugar-Sweetened Beverage Sales in Schools. Nationally, 83% of elementary schools, 97% of middle/junior high schools, and 99% of high schools sell foods and beverages through vending machines, school stores, or a la carte in the cafeteria.¹⁷ The U.S. Department of Agriculture's national nutrition standards for foods and beverages sold through vending machines, a la carte, school stores, and fundraisers are much weaker than those required for the school lunch and breakfast programs.¹⁸

While large soft drink companies own and sell many beverages including water and juices, as shown in Table 1, 76% of beverages sold in schools are sugary drinks (and 47% are carbonated soft drinks). Table 1 shows the average volume of beverages sold to students in schools annually (and weekly) at the elementary, middle, and high school levels. These data come directly from the beverage industry and were published in 2005 in *Measuring the Purchases of Soft Drinks by Students in U.S. Schools: an Analysis for the American Beverage Association*. The beverages most commonly sold are non-diet soft drinks, juice drinks (that are not 100% juice), sports drinks, and water.¹⁹ More beverages are available for sale in higher grade levels than in lower grade levels. Few beverages are sold in elementary schools (on average, 2.4 20-oz. bottles per student per year). More beverages are sold in middle schools (on average, 18 20-oz. bottles per student per year), and still more are sold in high schools (on average, 51 20-oz. bottles per student per year).

Table 1. Beverages Purchased in Schools, 2004^{19,*}

Beverage Type	Ounces per Elementary School Student per Year	Ounces per Elementary School Student per Week	Ounces per Middle School Student per Year	Ounces per Middle School Student per Week	Ounces per High School Student per Year	Ounces per High School Student per Week
Non-Diet Carbonated Soft Drinks	10.1	0.3	107.8	3.0	450.4	12.5
Diet Carbonated Soft Drinks	5.7	0.2	26.8	0.7	68.0	1.9
Water	9.5	0.3	50.0	1.4	131.8	3.7
Sports Drinks	7.3	0.2	64.3	1.8	136.5	3.8
100% Juice	2.2	0.1	9.9	0.3	26.5	0.7
<100% Juice	9.9	0.3	85.1	2.4	155.4	4.3
Teas	2.2	0.1	18.5	0.5	46.1	1.3
Flavored Milk	0.1	0.0	0.5	0.0	0.8	0.0
Other	0.3	0.0	2.8	0.1	4.0	0.1
Total	47.3	1.3	365.5	10.2	1,019.5	28.3

* Assumes 36 weeks per school year. Only includes beverages available to students.

At all school levels, far more unhealthy beverages (i.e., non-diet carbonated soft drinks, sports drinks, teas, and <100% juice drinks) were sold than healthy beverages (i.e., water, 100% juice, and milk). In elementary schools, on average, 12 oz. of healthy beverages were sold per student per year versus 30 oz. of unhealthy beverages. In middle schools, 60 oz. of healthy beverages were sold per student per year versus 276 oz. of unhealthy beverages. In high schools, 159 oz. of healthy beverages were sold per student per year versus 788 oz. of unhealthy beverages. Sugary soda constitutes 39% of total sugary beverage volume sold in middle school and 57% of total sugary beverage volume sold in high school.^A

Children consume an estimated 35 to 50 percent of their daily calories during the school day.²⁰ High school students consume, on average, 8,557 calories per year from low-nutrition beverages sold in schools (see Table 2). If those calories were not compensated for through additional physical activity or reduced consumption of other foods and beverages, they could lead to approximately 2.6 pounds of weight gain per year. Over four years of high school, this would translate to 10 pounds of weight gain solely from consuming sugary beverages purchased at school.

^A Note: 100% juice is not included as a sugary drink in these calculations.

Table 2. Calories from Low-Nutrition Beverage Sales in U.S. Schools^B

Beverage Type	Average Calories per oz.	Ounces per High School Student per Year	Calories per High School Student per Year	Ounces per Middle School Student per Year	Calories per Middle School Student per Year	Ounces per Elem. School Student per Year	Calories per Elem. School Student per Year
Carbonated soft drinks (non-diet)	12	450	5540	108	1326	10	124
Sports drinks	8	137	1092	64	514	7	58
Teas	8	46	355	19	142	2	17
<100% Juice drinks	10	155	1570	85	860	10	100
Total		788	8,557	276	2,842	29	299

In May 2006, the three largest soft drink companies, along with the Alliance for a Healthier Generation, announced that they will work with their bottlers and schools to remove sugary sodas from schools. Their new beverage guidelines, which they plan to phase in over the next three years, are as follows: in elementary and middle schools, only water, low-fat and non-fat milk, and 100% juice with no added sweeteners will be sold; in high schools, those beverages will be sold, plus drinks with up to 10 calories per 8 oz., sports drinks, diet soft drinks, and light juices; and at least half of beverages in high schools should be water or no- or low-calorie options.

The beverage companies' guidelines are limited in that they are voluntary and thus, are not legally binding. Schools have not agreed to adhere to the beverage guidelines, and it remains to be seen whether and to what extent they will accept and comply with them. Also, the beverage guidelines continue to permit the sale of some low-nutrition beverages, including sports drinks and fruit drinks, in high schools.

School Beverage Contracts. Schools are a desirable market for beverage companies, since children spend many of their waking hours there. Also, children often develop lifelong brand loyalties during their youth. Almost 75% of high schools, 65% of middle schools, and 30% of elementary schools have contracts with soft drink companies providing exclusive rights to sell and market beverages on their campuses.¹⁷

Contracts between beverage companies and schools and/or school districts have become widespread since the mid-1990s.²¹ These contracts typically provide schools with cash advances, commission revenues, and non-cash items. In exchange, beverage companies receive exclusive rights to sell and market their beverage products to students in schools.

^B The average calories for beverages sweetened with added sugars was calculated, and multiplied times the average number of ounces of those beverages consumed by students at school (see Table 1), to obtain the average calories consumed by students from low-nutrition beverage sales in U.S. schools.

For example, a contract between Dallas Public Schools and North Texas Coca-Cola Bottling Company states, “this Agreement is primarily an advertising and availability Agreement, entered into for the purpose of creating an association between beverages marketed by the Concessionaire [Coca-Cola], on the one hand, and the District [Dallas Public Schools], on the other, and Exclusive Beverage availability rights are necessary to ensure that the association between such Beverages and the District, including but not limited to its schools, the Teams, the Facility(s), is not undermined or diluted.”²²

The following bottling companies are the largest in the United States and together provide 90% of all beverages to schools: Coca-Cola Enterprises Inc., Coke Consolidated, Swire Coca-Cola, Coke United, Great Plains Coca-Cola, Coca-Cola Northern New England, Philadelphia Coke, Sacramento Coke, ABARTA, Pepsi Americas, Pepsi Bottling Group, Pepsi Bottling Ventures, and Dr Pepper/ Seven Up Bottling Group.¹⁹

Types of Contracts. School beverage contracts can be written between a beverage company and either a city, an entire school district, a consortium of districts or schools, a division of the school district, or one school within a district. The contracts usually cover both vending machine sales and fountain sales. The volume of beverage sales, types of beverages available for sale, and pervasiveness of marketing within schools all are shaped by the contract terms. The term “contract” includes several different types of arrangements between schools and soft drink companies, including Standard Contracts, Request for Responses (RFR) Contracts, and Purchase Order Contracts (see Appendix A). These terms lack any specific legal meaning in this context, but rather describe the ways in which beverage purchases within a school are governed. (Standard Contracts and RFR Contracts provide for similar systems of generating revenue to school districts.)

Some schools may be reluctant to give up the sale of sugary drinks for financial reasons. Knowledge of the amount of revenue generated from beverage sales is necessary for school principals and administrators to make informed decisions. Yet, school principals often are unaware of the amount of revenue generated from school vending machines¹⁷ and the monetary value of school beverage contracts is largely unknown to the public.

This is the first national study of school beverage contracts. We analyzed 120 school beverage contracts from 16 states in many regions of the country. Previous studies have analyzed school beverage contracts in a single state, including California (20 contracts)²³ and Oregon (19 contracts).²⁴

Methods

Beverage Contract Sample. Staff from the Public Health Advocacy Institute and New York attorney Ross E. Getman solicited more than 300 beverage contracts and accompanying materials from schools and school districts in twenty-three states through written requests under state open records laws. The sample was affected by which states have open records laws and the level of response received from individual schools and school districts. In response to our requests, schools and school districts sent contracts they held with beverage companies, Requests for Proposals, beverage company promotional materials, and correspondence between the schools/districts and beverage companies. The materials received in response to our requests totaled more than 6,000 pages.

Many of the contracts lacked sufficient information to make even a rough estimate of revenue generated by beverage sales. From the 300 contracts collected, we selected 120 that contained sufficient information to calculate revenue to schools from beverage sales.

The 120 school beverage contracts came from schools and school districts in 16 states (California [14 contracts], Colorado [two contracts], Florida [eight contracts], Idaho [seven contracts], Illinois [one contract], Maryland [one contract], Massachusetts [17 contracts], Missouri [11 contracts], New York [16 contracts], Ohio [20 contracts], Rhode Island [two contracts], South Carolina [eight contracts], Texas [four contracts], Utah [three contracts], Virginia [one contract], and Wisconsin [five contracts]). Fifty-four of the contracts cover just high schools, 46 contracts cover all schools within a given school district, 15 contracts cover just middle schools, four contracts cover middle and high schools, and one contract covers only an elementary school.

Financial Value Calculations. The beverage contracts typically provide benefits to schools/districts through cash advances, commissions on sales, and non-cash items. Average total annual revenue (cash payments plus commissions) to schools/districts per student was calculated for each of the 120 contracts in the sample.

Cash Advances: Calculations. The amount paid to the schools/districts as cash advances was clearly indicated in the contracts. The total cash advances over the life of each contract were calculated. The resulting number was divided by the number of years of the life of the contract. This amount was then divided by the number of students enrolled in the school/district covered by the contract.

Commissions on Beverage Sales: Calculations. Commissions to schools/districts on beverage sales were calculated using product price, commission rates to schools, student enrollment, and the national average volume of beverages purchased per student per year. The price of beverage products was determined from the contracts. If a range of prices for different beverages was indicated in the contract, then the average of those prices was used in our calculations. Com-

mission rates to schools for beverage sales were specified in the contracts. If a contract included multiple commission rates, then an average of those commission rates was used.^c

Student enrollment data were determined from the contracts when available and otherwise were obtained from state department of education reports, websites of schools and school districts, and <www.greatschools.net>.

Volume of beverage sales varies from school to school. However, the actual beverage sales volume data from specific schools were unavailable. Thus, as a reasonable surrogate, we used the national average beverage sales volume data from 2004 from an analysis conducted for the American Beverage Association (ABA).¹⁹ Beverages sold in schools that were not purchased by students, such as sales in teachers' lounges, were not included in our calculations.

Our calculations include two assumptions from the ABA's analysis:

1) a typical school year lasts 36 weeks, and 2) the average size of a beverage container sold in schools is 16.8 ounces.¹⁹

Revenue from sales commissions for each school/district beverage contract was calculated using the following formula:

(Beverage Price) x (Commission Rate to School/District) x (Average Number of Beverages Consumed per Student per Year) x (Student Enrollment in School/District) = Total Annual Sales Commissions to School/District

Total Revenue: Calculations. Average annual revenues from commissions for each school level (e.g., elementary, middle, or high school) were calculated and summed. Average annual cash advances per student and average annual commissions on sales per student were summed to determine the average annual per-student value of the beverage contract for each school/district.

Some schools/districts sell beverages through fountains, typically at athletic events after school. In such instances, schools usually purchase beverages from the bottler and the school retains 100% of the profits from the beverage sales. The fountain sales prices were not indicated in the beverage contracts. Fountain sales data are included in the ABA's average beverage consumption estimates, which were used in the calculations in this study. One limitation of our study is that our revenue calculations applied the price of bottled beverages to beverages sold through fountains, when in fact the fountain sales may have a different pricing structure.

^c As a check on our calculations, we calculated the sales revenue to schools from several contracts using the commission rates for each beverage type specified in the contract. We found that, using specific commission rates for specific beverages, the average annual sales revenue per student varied little from the average annual revenue calculated using average commission rates. Hence, we used average commission rates from each contract for the calculations in this report.

Results and Discussion

Contracting Beverage Companies and Contract Length. Of the 120 contracts analyzed, 64 were with PepsiCo (53%), 53 were with Coca-Cola (44%), two were with Polar Beverages, and one was with Nagel Beverages. Typically a regional bottler or distributor was the contracting party. National parent companies, e.g., the Coca-Cola Company and PepsiCo, were not parties to any of the contracts we analyzed.

Of the contracts we analyzed, 111 (93%) were exclusive to a single company, i.e., the contracts prohibited other companies and vendors from selling soft drinks in the schools. Eight contracts did not state whether they were exclusive or not. Only one contract explicitly stated that it was not exclusive.

The average number of students covered by a single contract was 5,958. The contracts ranged from covering 63 students in a single school to 161,972 in a large urban school district. A total of 714,949 students were covered by the contracts analyzed in this study.

Contracts ranged from one year to fourteen years in length. The average contract length was six years. Five years was the most common contract length.

FINANCIAL INCENTIVES FOR SCHOOLS TO SELL BRANDED BEVERAGES

Cash Advances. In this study, cash advances ranged in value from \$0 to \$79.37 per student per year (Table 3). The average cash advance was \$6.08 per student per year. Twenty-eight (23%) of the contracts did not include any cash advances. Of the contracts that did include cash advances, the average cash advance was \$8.00 per student per year.

A “cash advance”^D is an upfront payment that a school receives when it agrees to a beverage contract. This payment is paid to a school either immediately or over regular intervals in the first year of a contract. A benefit of a cash advance is that it provides schools with an immediate influx of unrestricted revenue, which is welcome to schools, which often have strained budgets and few liquid assets available.

Sometimes a cash advance is tied to subsequent commissions on beverage sales. When a cash advance is tied to commissions on sales, it serves as a pressure on a school/district to ensure that a sufficient volume of beverages is sold to cover the cash advance. If the school/district does not meet stated sales goals, then it may be required to return to the beverage company a portion of the initial cash advance.

^D The term “cash advance” is used in this report to describe myriad practices and legal arrangements, all of which involve lump sums of revenue.

Table 3. Annual Per-Student Revenue to Schools/Districts from Beverage Contracts (for All Grade Levels Combined)

	Average Cash Advance	Average Commissions on Sales	Average Revenue, Total
Range	\$0-\$79.37	\$0.59-\$39.57	\$0.59-\$93.25
Mean (Average)	\$6.08	\$12.03	\$18.11
Median	\$3.75	\$10.46	\$15.41
Most Common	\$0 (28 contracts)	\$15.15 (6 contracts)	\$8.31, \$15.83 (2 contracts each)

Table 4. Annual Per-Student Revenue to Schools/Districts from Beverage Contracts by Grade Level

Grade Level	Average Cash Advance	Cash Advances: Range	Average Commission	Commissions: Range	Average Total Revenue	Total Revenue: Range
Elementary School	\$5.38	\$0-\$36.73	\$0.37	\$0.11-\$0.72	\$5.75	\$0.24-\$37.19
Middle School	\$5.18	\$0-\$36.73	\$2.48	\$0.43-\$8.64	\$7.66	\$0.90-\$38.92
High School	\$6.45	\$0-\$79.37	\$12.29	\$1.27-\$39.57	\$18.74	\$2.96-\$93.25

Commissions on Beverage Sales. Commissions to schools/districts are paid as a percentage of the point-of-sale price. Commission rates vary according to the type of beverage. Commission rates to schools/districts varied widely among the contracts in this study, ranging from 12% to 58% of beverage sales. Thus, beverage companies retained 42% to 88% of the sales revenue. The average commission rate to schools/districts in this study was 33%. Therefore, the majority (67% on average) of revenue generated from beverage sales goes to the beverage companies rather than to the schools. Of course, since companies must cover the cost of producing and distributing their products, their portion of the beverage sales revenue is not entirely profit. In addition to receiving a portion of the sales revenue, beverage companies also receive valuable marketing rights and privileges within schools.

Beverage contracts vary widely in how lucrative they are for schools. The range of annual sales commissions to schools/districts was \$0.59 to \$39.57 per student per year (Table 3). (Note: several elementary schools that were part of district-wide beverage contracts received less than \$0.59 per student per year from annual commissions on sales. However, since these contracts were written at the district level, only the total district's per-

student commissions are included in Table 3.) The average annual commissions on sales to schools/districts were \$12.03 per student per year.

Total Revenue for Schools. The range of total average revenue for schools/districts was \$0.59 to \$93.25 per student per year (Table 3). The mean total annual revenue to schools/districts was \$18.11 per student. Just one small high school (with only 63 students) had total annual revenues of more than \$50 per student (see revenue distribution in Table 5).

Table 5. Distribution: Total Revenue to Schools/Districts from Beverage Contracts

Annual Revenue per Student	Number of Schools/Districts with Specified Level of Annual Revenue
\$0-\$5.00	7
\$5.01-\$10.00	23
\$10.01-\$15.00	26
\$15.01-\$20.00	20
\$20.01-\$25.00	16
\$25.01-\$30.00	16
\$30.01-50.00	11
\$50.01-\$100.00	1

The range of total annual revenue generated from beverage sales to schools/districts under a single contract was \$339 to \$2.2 million. Only three contracts generated more than \$1 million per year to the school district. In fact, only ten of the contracts raised more than \$200,000 per year to the school district (all ten contracts covered large school districts). The contract generating \$2.2 million per year covered a large school district with 46,800 students and raised \$47 per year per student. The average total annual revenue to schools/districts under a single contract was \$98,667. The median total annual revenue to schools/districts under a single contract was \$27,691.

A previous school survey by the Government Accountability Office (GAO) found that few schools earned large sums from school beverage contracts. The GAO found that approximately one-quarter of high schools with exclusive beverage contracts estimated that they generated more than \$15,000 per school per year from those contracts.¹⁷

Since the average commission rate to schools/districts in the contracts was 33%, for the average school/district to earn \$98,667 annually from its beverage contract, students in

that school/district had to spend \$298,991 to purchase 335,945 beverages at school (at an average price of 89 cents per beverage).

Commissions, on average, provided greater revenue to high schools than did cash advances (see Tables 3 and 4). The opposite was true for elementary and middle schools.

Excluded from our calculations are the annual electricity costs of running refrigerated vending machines, which are a hidden cost to schools and somewhat decrease the revenue from vending machines.

Vendors are responsible for refilling machines and emptying their cash. They also calculate the commissions on sales and pay the school/district. Most contracts give the school/district an option to request an audit. However, the extent to which schools take advantage of this option is unknown.

Non-Cash Benefits. Common examples of non-cash benefits from school beverage contracts include scoreboards, computer software, and scholarships (Table 6). Estimating a national average value of non-cash benefits is difficult. Items such as scoreboards vary in value according to their size, quality, and brand. Also, non-cash contributions, while of value to schools/districts, are accounted for differently than unrestricted cash payments in school budgeting.

Schools are allowed to keep non-cash benefits as long as schools do not break their beverage contracts. Non-cash benefits add to the desirability of contracts. For example, coaches come to rely on uniforms or provided equipment.

Table 6. Examples and Estimated Values of Common Non-Cash Benefits^E

Item	Estimated Value Per Item ^E
Scoreboard	\$2,500-\$10,000
College scholarships	Variable
Sports sideline equipment kit (e.g., coolers, towels, squeeze bottles, cups, clipboards)	\$750-\$2,500
Career planning software program	\$400-\$700
Scholarship software program	\$5,000
Fundraising software program	\$3,000
"Complimentary" cases of beverage products	Variable
Bonuses for outstanding teachers	Variable

Since only 30% of the contracts in this study assigned value to the non-cash benefits, those benefits are not included in our calculations of the total contract value. The GAO estimated that 30% of schools with beverage contracts receive non-cash benefits.¹⁷ In addition, GAO estimated that, of schools receiving non-cash benefits from beverage contracts, approximately three-quarters receive benefits valued at less than or equal to \$5,000 per year.¹⁷ Exclusion of the value of non-cash items from the total value of the beverage contracts is a limitation of this study and means that the value of the contracts is somewhat underestimated.

Marketing Is Central to School Beverage Contracts. Our analysis of school beverage contracts suggests that the marketing of branded beverages to an impressionable, young audience in a captive environment is a major goal of beverage companies in conducting business with schools. According to Peter Sealey, former marketing chief of Coca-Cola, "With soft drink consumption, early preferences translate into later life preferences. It's a lot easier than getting consumers to switch their brand preferences later on."²⁵

Penalties to schools for breaking the marketing provisions of beverage contracts often are similar to penalties schools would incur from not meeting anticipated sales quotas. Such provisions and penalties suggest that beverage companies view the marketing of their products in schools as being as valuable as the revenue generated through beverage sales in schools.

^E Estimated values of non-cash incentives are taken from school beverage contracts analyzed in this study. Actual market value of those items may differ.

For example, in the Dallas Public Schools' contract with North Texas Coca-Cola Bottling Company, loss of either "beverage availability" or "advertising right" is listed as sufficient grounds for termination of the contract by Coca-Cola. Either situation would result in Coca-Cola requiring the school district to pay "a pro rata refund of any prepaid sponsorship fees," as well as to "adjust the fee structure for the then remaining portion of the Term and ... pay to [Coca-Cola] a pro rata refund to reflect the diminution of the value of the rights granted."²²

As stated by the National Academies' Institute of Medicine, "Children and youth represent an important demographic market because they are potential customers, they influence purchases made by parents and households, and they constitute the future adult market."²⁶ Children four to 12 years old spend and directly control at least \$24 billion a year in purchases.²⁷ One-third of their money is spent on foods and beverages. Also, children influence another \$500 billion in spending by their families and others.²⁷



School vending machines also act as billboards that children see each school day.

Common contract provisions that promote beverage marketing in schools include:

- A beverage company is granted the exclusive right to provide beverages in a school or district.
- A beverage company provides scoreboards bearing the company's logo.
- Vending machines must be turned on at all times.^F
- Vending machines (whose front and side panels often prominently display company products or logos) may not be covered.
- Any person or group (e.g., a booster club, school club, or concession stand at an athletic event) selling beverages on campus is required to use branded cups (i.e., with Coke/Pepsi logos) and to purchase them from the company.
- A beverage company provides students with college scholarships named after the company.

These and other marketing provisions ensure that a beverage company has the right not only to sell its beverages in schools, but also to market its products in schools to maximize both current and future beverage consumption and cultivate lifelong brand loyalty. Through the contracts, the beverage companies are usually given control over which products are placed in vending machine slots and also where in the school the vending machines are placed.

School beverage contracts sometimes include penalties to schools (including termination of the contract) if governments establish nutrition standards for school beverages. Such penalties could motivate school administrators to oppose local, state, or national laws or regulations setting nutrition standards for school vending machines.

^F The only exception to this provision, as required by USDA regulations, is if a machine contains Foods of Minimal Nutritional Value (such as soda) and is within the cafeteria when school meals are being served.

Conclusions

This study should reassure school administrators, state lawmakers, and members of Congress for whom budget concerns have been a barrier to implementing school policies that replace soda and other sugary drinks with healthier options.

Schools are raising modest amounts of money from beverage contracts, amounts that could be replaced by selling healthier beverages or through alternative fundraising approaches. Our analysis of 120 school beverage contracts from around the country found that average revenue to schools and/or school districts was just \$18 per student per year, or a total of about \$98,667 per year generated by a single contract. While this amount is typically a small fraction of a school's overall budget, it is valued highly by many school principals and administrators since it is a flexible source of revenue available for meeting program needs at their discretion.

Importantly, beverage companies are not giving money to schools, they are taking it. The money pumped into school vending machines comes out of children's (and their parents') pockets. Then, beverage companies keep the greater part of that money – on average 67% of it.

Beverage contracts are not the most profitable school fundraiser. Schools raise about 33 cents for every dollar that children spend on vending machines. In some cases, the profit margin is even less. For example, in Austin Independent School District, students spent \$504,000 per year on products from school vending machines, but schools received only \$90,000 of the proceeds.²⁸ Alternatively, fundraisers in which schools sell products, such as gift wrap and candles, usually provide schools with profit margins of about 45%,¹ though the revenue to the school is determined by the volume sold. (For more information on alternative, healthy fundraisers, see CSPI's report, *Sweet Deals: School Fundraising Can Be Healthy and Profitable*, at <www.cspinet.org/schoolfundraising.pdf>.)

We also found that schools/districts in various states and cities have negotiated very different deals with the same companies. Some schools/districts receive up to 58% commission rates, while others receive just 12% commission rates. Many schools are getting a raw deal. School officials would benefit from assistance with negotiating more favorable contracts and higher commission rates.

Schools are finding they can make money without selling low nutrition beverages. The U.S. Department of Agriculture (USDA) and Centers for Disease Control and Prevention (CDC) looked at 17 schools and districts that measured revenue before and after improving the nutritional quality of their offerings. They found that 12 schools/districts increased revenue and four districts reported no change in revenue.² The food service department of the one school district that lost revenue later saw its revenues increase to surpass previous levels.³

Lastly, we found that the marketing of branded beverages to children is a major goal of beverage companies in establishing contracts with schools. Our contract analysis reveals that the opportunity to market products in schools is equally as valuable to companies as the revenue generated through beverage sales in schools. Our nation's schools should not be used to promote low-nutrition foods to children, which can lead to unhealthy habits that could follow them into adulthood.

Given the rising childhood obesity rates and children's poor diets, beverage contracts should be negotiated to ensure that only healthy beverages and brands are sold or marketed to students.

Schools Can Protect Children's Diets and Health by Taking the Following Steps When Negotiating School Beverage Contracts:^{6,29}

- 1. Ensure parent, student, and community involvement in the decision-making process as a school beverage contract is negotiated.**
- 2. Understand the finances.** Most contracts include two forms of revenue to schools: 1) cash advances and 2) commissions on beverages students purchase. Determining the value of a contract should include both revenue sources. Negotiate higher commissions.
- 3. Retain full control over the length of the contract.** Spread lump sum payments equally over the course of the contract; large payments up front make it difficult for a school to terminate the contract later on. Provide districts with the option to terminate the contract without cause or financial penalties.
- 4. Ensure that parents and schools – not the companies – choose the types of beverages sold.** Schools should write nutrition standards into their requests for proposals and beverage contracts. Define a company's failure to provide beverages in accordance with federal and state laws, as well as the district's wellness policy, as a "material breach" of the contract.
- 5. Ensure that parents and schools retain sole control over how and when beverages are sold.** Ensure that the district or school has sole control over the number and location of vending machines in each school; the hours of vending operation; the percentage and location of various types of beverages in machines; beverage prices; and the images featured on vending machine side panels.

⁶ These recommendations were adapted from those developed by Nicola Pinson, JD, Community Health Partnership and Debora Pinkas, JD, Public Health Law Program, Public Health Institute. For more information, see their excellent resource *School Beverages – Time to Pop Open Your Soda Contract*²⁹ at <www.communityhealthpartnership.org/pdf/soda_rec.pdf>. These recommendations are provided as general advice and not offered or intended as legal advice. Please consult an attorney for legal advice specific to your contract negotiations.

6. **Evaluate the merit of granting beverage companies exclusive advertising and marketing rights in schools.** Marketing rights do not need to be a part of these deals. Ensure that low-nutrition beverages and brands may not be marketed on school grounds (for example, bar soft drink logos on vending machines and scoreboards).
7. **Build in financial and legal accountability.** Require the beverage company to provide the district or school with readily understandable financial reports at regular intervals.
8. **Centralize individual school contract management and negotiations.** Negotiating on behalf of all the schools in a district strengthens the schools' purchasing power.

Many schools are being prompted to revise their vending policies by local school wellness initiatives and state legislation and regulations. This study should assuage concerns about schools losing revenue when they stop selling sugary beverages. The modest funds raised through selling low-nutrition beverages could be compensated for by the sale of healthier beverages or by alternative fundraisers.

Appendix A:

Types of Contracts

Standard Contracts. Standard contracts, the most common type for schools, are signed between a school or school district and a bottler/distributor for a period of years. A standard contract facilitates the sale and marketing of beverages in schools and lays out the terms for compensation for the school/school district. These contracts are legal arrangements that integrate a school or school district into a beverage company's marketing strategy and, simultaneously, integrate a beverage company into a school/district's fundraising plan.

Schools often have limited abilities to negotiate the terms of standard contracts with beverage companies. A school or school district that is small (or has limited means) may lack the necessary legal resources to negotiate a lucrative contract. School principals or school district superintendents often sign beverage contracts on behalf of schools/districts, and many principals and superintendents lack extensive knowledge of food service management, related business practices, and what their options are for the provisions within the beverage contract. In addition, school officials usually are unaware of the terms of other schools' contracts, and thus, are unable to determine whether they are receiving a good deal relative to what other schools are getting.

Across the sample of contracts we analyzed, we found many terms and conditions of the contracts to be strikingly similar, with the notable exception of the terms describing commission rates and cash advances to schools, which varied considerably. The similarity of the language in so many contracts demonstrates the beverage companies' leverage and expertise in drafting and negotiating the contract terms.

Request for Responses (RFR) Contracts. RFR contracts are less common than other types of school beverage contracts. However, since this approach is usually employed by larger districts and cities, RFR contracts *may* cover more students than other contract types. These contracts are usually put into place through a formal procurement or bidding process. The formal bidding process provides an opportunity for schools and school districts using these types of contracts to negotiate for terms beneficial to the schools.

Generally, the terms of RFR contracts are similar to the Standard Contracts with only slight variations. These variations are mostly of consequence in legal terms. RFR contracts *may* result in *more* advertising than other types, as larger school districts often have the negotiating power and business expertise to charge extra for advertising space and to offer extensive marketing opportunities to beverage companies. Of course, this also gives districts the power to limit marketing on school campuses.

Purchase Order Contracts. These are the simplest types of contracts, but are uncommon for school beverage contracts. Purchase order contracts are non-exclusive and include no sales commissions for the schools. Under these contracts, a school orders cases of beverages from one or more distributors and sells the beverages in its own machines. None of the contracts in our sample are of this type.

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