



**SCHOOL BEVERAGE GUIDELINES
PROGRESS REPORT
2006-2007**

SEPTEMBER, 2007

School Beverage Guidelines Progress Report 2006-2007

Executive Summary

On May 3, 2006, leading members of the beverage industry and the Alliance for a Healthier Generation announced a landmark policy that phases out the sale of full-calorie carbonated soft drinks (CSDs) in America's schools and accelerates the shift to lower-calorie and nutritious beverages. These School Beverage Guidelines are embodied in a memorandum of understanding (MOU) between the Alliance (a joint initiative of the American Heart Association and the William J. Clinton Foundation), the American Beverage Association (ABA) and three beverage producers, Cadbury Schweppes Americas Beverages, The Coca-Cola Company and PepsiCo, Inc.

This Progress Report provides the first annual assessment of the impact and status of the School Beverage Guidelines called for by the MOU. It was prepared by ABA with assistance from outside consultants and reviewed by representatives of the Alliance. ABA members, including the three MOU signatories and their principal bottlers, collected and submitted the data presented in the report and also reviewed the report's findings and conclusions.

As the Report demonstrates, the beverage producers and their bottlers have made strong progress toward implementation of the guidelines during their first year, effecting a wholesale change in the beverages available to students across America during the regular and extended school day. Because of these efforts --

- ***The school beverage landscape is changing:*** Shipments of full-calorie CSDs to schools were 45 percent lower during the 2006-07 school year than they were in 2004, with the average high school student purchasing just 5.9 ounces (or less than half a can) of such drinks per week as compared to 12.5 ounces per week in 2004.¹ Shipments of waters increased by 23 percent during the same period.
- ***Calories are coming out of the schools:*** The major swing away from full-calorie carbonated soft drinks and sharp drop in shipments of these beverages resulted in a 41 percent decrease in total beverage calories shipped to schools between 2004 and 2006-07.
- ***School contracts are on track:*** In this first year, over one third (35 percent) of all contracts between bottlers and school districts have achieved compliance with the guidelines. Most of these contracts were in place before the signing of the guidelines and

¹ In 2005, Dr. Robert Wescott, an independent economist, conducted a study for ABA of beverage shipments to schools in 2004. This study, which is cited in the MOU as an example of the type of product analysis necessary to determine the impact of the guidelines, is used as the basis for comparison of the school product mix and shipments levels in 2004 and 2006-07.

many will extend for several more years. Compliance has been even higher for schools purchasing beverages on a non-contract basis.

In light of the MOU's three year implementation timeline, the gains made during the first year are particularly noteworthy given the challenges associated with educating and training bottlers and schools alike, revising financial arrangements between bottlers and schools, and reconfiguring product lines and equipment. These results confirm that the beverage companies and their bottlers are committed to bringing this policy to full fruition and promoting a healthy school environment.

Background

The School Beverage Guidelines impose detailed limitations on the beverage products that may be sold in elementary schools, middle schools and high schools.² The guidelines eliminate full-calorie CSDs from all schools, and they also provide that only water, low or non fat milk, and 100 percent juices (that meet certain micronutrient requirements) may be sold in elementary and middle schools. A broader range of products is permitted in high schools to allow for variety in teenagers' diets at relatively low calorie levels, but at least 50 percent of non-milk beverages sold in high schools must be water and no- or low-calorie options. In addition, the guidelines impose nutritional and package size requirements on allowable products which differ at the elementary, middle and high school level.

The MOU recognizes that the guidelines need to be phased in over time to address the challenges of implementation. The MOU sets a goal of implementing the guidelines for 75 percent of schools under contract prior to the beginning of the 2008-09 school year and 100 percent of all schools prior to the beginning of the 2009-10 school year. Notably, there is no goal established for contract compliance prior to the beginning of the 2008-09 school year in light of the many hurdles that schools and bottlers face in rolling out the guidelines and building a framework for compliance.

With 54 million children attending 125,000 schools nationwide, implementation of the guidelines is an enormously complex undertaking. The changes to the product mix go well beyond simply removing certain full-calorie products from the schools. Rather, the guidelines call for myriad adjustments in portion and package sizes and nutritional content. As a result of these changes, bottlers have spent millions of dollars and thousands of hours educating and training their sales forces, reaching out to school customers, retrofitting vending machines and reconfiguring product offerings.

In addition, as the MOU recognizes, the financial relationships between schools and bottlers are long-standing and complex, and cannot be changed overnight. During this first year, bottlers have worked hard to communicate the goals and contents of the guidelines to their school customers, and have worked to ensure that new contracts entered into after the signing of the MOU are compliant. Bottlers also have engaged in the highly personal process of working with

² A copy of the Guidelines is attached as Appendix A.

schools that have existing contracts to discuss how, when, and under what financial conditions the product mix supplied to the school could come into compliance before the contract expires.

To track the beverage industry's progress in implementing the School Beverage Guidelines, the MOU calls for the parties to "support an annual analysis that will disclose the impact and status of this policy" by addressing two issues:

- The volumes of different products sold in schools at the elementary, middle and high school levels since May of 2006; and
- The percent of school contracts complying with the MOU guidelines, including contracts executed after the MOU was signed and contracts previously executed and still in effect, broken down for the different categories of schools.

Throughout this past year, bottlers have allocated significant resources to establish reporting systems and collect data to meet the MOU's reporting commitments. To compile and analyze the sales volume data, ABA retained Keybridge Research LLC, an independent economic analysis and public policy research firm, under the direction of Dr. Robert Wescott. To examine changes in the size and makeup of the school product mix, school shipment data was provided by 36 bottlers, responsible for more than 90 percent of total industry shipments. Data on school contracts, which unlike sales data, is not at this time centralized and easily retrievable, was received from a slightly smaller segment of the bottler universe, representing a little less than 90 percent of total industry sales.

Summary of Key Findings

The school shipment data for the 2006-07 school year show that the volume and mix of beverages sold in the schools have changed dramatically when compared to 2004 school sales, which were quantified in a 2005 study using a similar methodology. These changes represent substantial progress toward the guidelines' goal of shifting toward the sale of lower-calorie and nutritious beverages in the schools. Specifically:

- *The school beverage landscape is shifting toward lower-calorie and nutritious choices--*
 - Overall school shipments of all beverages (measured on a total ounces basis) dropped by 27 percent between 2004 and the 2006-07 school year.
 - This decline was particularly noteworthy for full-calorie CSDs, for which total school shipments dropped by 45 percent between 2004 and 2006-07.
 - In high schools, where the bulk of school beverage sales occur, the share of full-calorie CSDs fell from 47 percent of the product mix in 2004 to 32 percent in 2006-07, with the full-calorie CSD share dropping to 26-28 percent by the end of the 2006-07 school year.
 - At the same time that shipments of full-calorie CSDs to all schools dropped sharply, shipments of waters increased by 23 percent between 2004 and 2006-07.

- Shipments of regular (non-diet) sports drinks to all schools declined by nearly 2 percent between 2004 and 2006-07.
- *Calories are coming out of the schools--*
 - The average high school student purchased only 5.9 ounces of full-calorie CSDs per week (or less than half a can) in 2006-07 as compared to 12.5 ounces per week in 2004.
 - The major swing away from full-calorie carbonated soft drinks and the sharp drop in shipments of these beverages resulted in a 41 percent decrease in total beverage calories shipped to schools between 2004 and 2006-07.
- *School contracts are on track toward meeting the MOU targets, with strong progress in implementing the guidelines for new and existing school contracts and non-contract sales--*
 - 90 percent of the new contracts entered into by bottlers and schools since the guidelines took effect (a total of 919 contracts) are in compliance with the guidelines.
 - 28 percent of contracts predating the guidelines but still in effect for the 2007-08 school year (a total of 6,650 contracts) are in compliance with the guidelines. Some of these contracts have been amended; in many other instances, the product mix sold in the schools has been converted to compliant beverages without a change in the contract itself.
 - Combining new and pre-existing contracts, 35 percent of all contracts in effect for the 2007-08 school year (a total of 7,569 contracts) are in compliance with the guidelines.
 - A large portion of school beverage sales (perhaps 20-30 percent) are based on informal understandings as opposed to formal contracts between bottlers and schools. Partial data on this universe of school sales indicates that 72 percent of schools without formal contracts (3009 out of a total of 4176) are in compliance with the guidelines.

Next Steps

This past year, the bottlers and franchise companies worked hard to build a foundation for implementing the Guidelines, including training sales forces, retrofitting machines, and reformulating and repackaging products. Now, with this transition year behind them and compliance well on its way toward achieving the benchmark goals established by the MOU, the companies will focus on ensuring that overall compliance meets the MOU targets. Between 25 and 40 percent of existing school contracts will expire during the next 12 months, before the onset of the 2008-09 school year. If – as is expected – the overwhelming number of new contracts replacing these agreements are in compliance with the School Beverage Guidelines, compliance will be within reach of the 75 percent goal in the MOU. Bottlers plan to further raise the level of compliance by intensifying their efforts to adjust existing contracts through increased outreach to schools and more proactive contract renegotiation initiatives. As an increasing

number of school contracts are reopened before their terms expire, the support of the Alliance and other public health organizations will be crucial in underscoring the importance of meeting the MOU goals with school administrators and parents.

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