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Connecticut May Ban Soft Drinks in Schools on Obesity Concern

May 25 (Bloomberg) -- Connecticut's legislature may today ban soft drinks from vending machines in schools because of concern the beverages contribute to obesity in children, the first such state-wide prohibition.

Similar bans already enacted in five of the largest 10 U.S. school districts and endorsed by California Governor Arnold Schwarzenegger may hamper growth at Coca-Cola Co., the world's largest soft-drink maker. Sales of soft drinks in schools, which totaled about \$700 million last year, help the company attract consumers when they are establishing brand loyalties, said Sanford C. Bernstein analyst Robert van Brugge.

“With soft drink consumption, early preferences translate into later life preferences,” said Peter Sealey, Coca-Cola's former marketing chief and a consultant to the company. “It's a lot easier than getting consumers to switch their brand preferences later on.”

Connecticut's legislature, based in Hartford, will give final approval to a proposal to remove soft drinks from schools that was passed 24 to 11 by the state senate in April, according to Patrick Scully, press aide to Senate President Donald Williams. The governor needs to sign the measure to become law.

Both Atlanta-based Coca-Cola spokeswoman Kirsten Witt and PepsiCo spokesman Dave DeCecco declined to disclose their companies' share of sales in U.S. schools. Coca-Cola is the “dominant” soft-drink provider in schools, said Ross Getman, a New York lawyer who has examined hundreds of soft-drink provider contracts with schools as part of lawsuits he has brought to remove the beverages.

Shares of Coca-Cola rose 5 cents to \$45.02 at 4 p.m. in New York Stock Exchange composite trading. Coca-Cola has fallen 14 percent in the past five years; PepsiCo has climbed 40 percent during the same period.

Schwarzenegger

The California legislation is considering a similar ban for its 9,223 public schools. Schwarzenegger's support means it's just a matter of time before the restriction becomes law, said Getman.

``We should use our vending machines in the public schools and fill them with good food" to replace ``garbage" soft drinks and junk food, said Schwarzenegger at a March 6 speech at the Arnold Classic bodybuilding competition in Columbus, Ohio.

The U.S. Centers for Disease Control and Prevention found 94 percent of high schools sold soft drinks in 2000. ``Coke has gained a certain level of brand exposure at schools," said Walter Todd, who helps manage \$1 billion at Greenwood Capital Management, including 400,000 Coca-Cola shares. Schools ``are targeting soft drinks because they are easy targets."

Obesity

Coca-Cola is struggling to revive sales growth that has averaged 2.3 percent the past five years compared with 7.5 percent for PepsiCo Inc. The switch among soda drinkers to lower-calorie beverages, such as waters and juices, has benefited Purchase, New York-based PepsiCo.

Coca-Cola Chief Executive E. Neville Isdell declined to be interviewed for this story, said spokeswoman Witt. He is promoting exercise as a remedy to obesity and introducing new, lower-calorie drinks such as Diet Coke with Splenda and Coca-Cola Zero this year.

``The obesity problem won't be solved by bad science or phony solutions or scapegoating certain foods," Isdell said in his first speech after taking over as chief executive in June 2004.

Last year, the American Academy of Pediatrics called on schools to remove soft drinks, which are the ``primary source of added sugar in the daily diet of children." The average weight for a 10-year-old was 85 pounds for a boy and 88 pounds for a girl in 2002, both up 11 pounds from 1963, the CDC reported last October.

``We need to present students with healthier choices," said Mark Truax, director of food and nutrition services in Washington, D.C.'s public schools.

Money for Schools

Washington, D.C. has removed soft drinks from eight schools as part of a test and is considering a district-wide ban at its 149 schools, said Truax, citing a series of public-health studies on obesity. Washington would follow the lead of cities such as Los Angeles, Philadelphia, New York City and Chicago that have removed the drinks from schools.

More school districts across the country are likely to adopt restrictions, said Ray A. Goldberg, Harvard Business School professor who wrote an August 2004 case study on Texas. The state banned the sale of the drinks for elementary students during school hours and restricted their sale until after the last lunch period for middle schools.

Commonplace

Soft drinks became commonplace in public schools during the 1990s because they generated revenue for districts at a time when budgets were tight. Soft-drink bottlers give some schools 25 percent or more of revenue from vending machines.

When a district bans soft drinks, bottlers usually replace them with lower-calorie drinks such as bottled waters and juices made by a variety of companies. These beverages don't sell as well as carbonated beverages, generating less money for schools.

In Chicago, sales of beverages plunged as much as 50 percent since the 1,495 Coca-Cola machines were removed in the four months ended Feb. 28. They were replaced with 1,200 machines selling non Coca-Cola products including Cadbury Schweppes Plc's Snapple juice, said Sue Susanke, director of logistics who oversees the contract.

Chicago schools expect to generate just \$6 million under a new three-year contract with an independent bottler, compared with \$21 million from Coca-Cola under a prior five-year agreement, she said.

“The results of childhood obesity are diabetes and high blood pressure,” said Susanke. “We need to look out for the health and well-being of our students.”

Diversifying

The school bans are another indication that Coca-Cola needs to move quickly to diversify its business beyond soft drinks, said Todd of

Greenwood Capital Management. Carbonated soft drinks generate 83 percent of the company's sales compared with less than 20 percent at PepsiCo, whose Gatorade sports drink, Tropicana orange juice and Aquafina water are market leaders.

Coca-Cola is ``heavily tilted toward soft drinks," Harvard's Goldberg said. ``They are playing catch-up" in providing healthier drinks.

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