PROPOSAL: Values-based beverage system at UC Berkeley

A no-contract approach

BUSINESS PARTNER EVALUATION

CORPORATE RESPONSIBILITY CRITERIA: a demonstrated commitment to...

(1) Environmental Sustainability
Must meet at least one:
Sustainable sourcing, resource efficiency, energy efficiency, sustainable packaging, waste management, sustainable transportation, business environmental certification, certified products (organic)

(2) Health
Promotes food safety & has diverse offering of healthy beverages that comply with UCB Food & Beverage Choices Policy

(3) Just Labor Practices
Has non-discrimination policy & must meet at least one: Fair trade certified, promotes gender equality, diversity & inclusion in hiring practices, promotes worker safety/health, livable compensation & benefits, democratic governance

ADDITIONAL CRITERIA:
Fair Pricing: bevs affordable to UCB & consumers (promotes equity)
Appropriate Offerings: bev options fulfill consumer preferences (promotes inclusivity)

FINANCIAL MODEL*
*Complete model attached

Under Current Pepsi System:
Bev expenses balance out bev revenues
Admin costs (not tangible): $240k/yr
Overall Revenue: $1.55M/yr

Under Proposed System:
Bev expenses balance out bev revenues
Admin costs (not tangible): $480k/yr
Cost of 2 new staff: $120k/yr
Cost of equipment: $150k one-time fee
Overall Revenue: $1.535M/yr

COST BENEFIT ANALYSIS*
*Complete analysis attached

We considered health, environmental, & financial costs & benefits

Under Current Pepsi System:
COSTS outweigh benefits by $460B/yr

Under Proposed System:
BENEFITS outweigh costs by $356M/yr

REFERENCES
(7) Office of Sustainability (n.d.). University of Vermont.
UCB'S PEPSI CONTRACT
- Expires January 31, 2021
- Pepsi has exclusive right to sell/promote beverages
- Pepsi provides $1.3M in sponsorship each year
- Pepsi does NOT reflect our campus values of health (see Food/Bev Choices Policy), sustainability (see Zero Waste 2020), equity/inclusivity (see Principles of Community), & corporate responsibility (see UPP Guiding Principles)

STAKEHOLDER ENGAGEMENT
STUDENTS: 93% want SSBs in FEWER places on campus (see Spring 2019 Campus Beverage Student Survey) --> addresses risk assessment
STAFF: Multiple distributor model --> more flexibility, better prices, more admin
FACULTY: Pepsi contract sends message that Cal supports SSB consumption. Ideal to eliminate SSB marketing across campus & increase tap water marketing.

PROBLEM STATEMENT
How do we design a campus beverage system that:
(1) does NOT rely on a contract w/ Big Soda;
(2) aligns w/ campus values; and
(3) replaces Pepsi sponsorship to ensure UCB's financial stability?

KEY FINDINGS
(Literature Review)
- SSBs --> obesity, diabetes (1)
- Big Soda manipulates studies (2), preempts soda taxes (4), & uses unsustainable sugar production (3)
- UCSF, SFSU, & U of Vermont have no-contract models (5,6,7)

RISK ASSESSMENT
Must ensure that a limited SSB model is what consumers really want

A Healthy, Sustainable, Equitable, Inclusive, & Financially Feasible Beverage System for UC Berkeley
Fulfilling campus values through a No-Contract approach

Innovation Brief

1. **End Exclusive Pouring Rights Contract with Pepsi**
   - Big Soda does not align with UCB & student values
   - Unsustainable sugar production does not align w/ sustainability value; SSB promotion, study manipulation, targeted marketing, & soda tax preemption do not align w/ health & equity values
   - Pepsi therefore does not align w/ corporate responsibility value

2. **Procure beverages from existing Cal Dining Distributors & a new Vending Machine company**
   - More procurement flexibility, lower wholesale prices
   - Partners must align w/ Business Partner Eval Criteria (promotes corporate responsibility, sets example for other colleges)

3. **Promote healthier beverages**
   - Tap water signage; No marketing for other beverages
   - No SSBs in dinings halls (aligns w/ student desires & saves $)
   - Retail, concessions, vending machines limit SSBs in line w/ Food & Bev Choices Policy; begin SSB phase-out in Yr 3
   - Reduce SSB intake → reduce disease → reduce healthcare costs

4. **Promote more sustainable beverages**
   - Procure bev w/ sustainable packaging, encourage use of reusable bottles, promote tap water (aligns w/ Zero Waste 2020)
   - Procure bev from distributors & a vending machine co. that demonstrate commitment to sustainability criteria

5. **Promote equity & inclusivity**
   - Procure variety of bev from distributors/vending machine co. that carry many brands, have lower wholesale prices, & meet just labor criteria → Affordable bev on campus that meet diverse preferences & were made in a just environment

6. **Replace Pepsi Sponsorship $**
   - Partner with a CA health insurer to sponsor UCB’s HBI
   - Sponsor gets exclusive marketing rights across campus; sponsor must provide marketing funds
   - Sponsor criteria: must promote health equity
   - **Financial stability of ASUC, RSSP, Athletics, Rec Sports**
## PROPOSAL: Values-Based Beverage System at UC Berkeley

**A no-contract approach**

### Financial Model: Current PepsiCo Contract

<table>
<thead>
<tr>
<th>Category</th>
<th>Notes</th>
<th>Expenditures</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sponsorship</td>
<td>Sponsor: Pepsi</td>
<td></td>
<td>+$1.3 million</td>
</tr>
<tr>
<td>Sustainability Funds</td>
<td>E.g. to purchase recycling bins</td>
<td></td>
<td>+$15,000</td>
</tr>
<tr>
<td>Product Donations (in-kind)</td>
<td>--</td>
<td></td>
<td>(−$40,000)</td>
</tr>
<tr>
<td>Marketing Funds</td>
<td>To fund promotion of Pepsi</td>
<td></td>
<td>+$235,000</td>
</tr>
<tr>
<td>Beverages</td>
<td>UCB essentially breaks even; Pepsi prices are likely higher than distributors’ b/c Pepsi wants to recover sponsorship</td>
<td>(hidden labor costs)</td>
<td>SUM to about $0. Very variable yr. to yr. How much we procure &amp; sell depends on consumers. Generally though, beverage expenditures &amp; revenues balance out.</td>
</tr>
<tr>
<td>Equipment</td>
<td>Provided by Pepsi</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Equipment Maintenance</td>
<td>Provided by Pepsi</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Staff to place beverages</td>
<td>2 staff provided by Pepsi</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Transaction Costs (admin)</td>
<td>~$80 of labor per invoice, 6-10 Pepsi invoices per day → 80<em>10</em>300 days = ~$240,000 per year</td>
<td></td>
<td>−$240,000</td>
</tr>
<tr>
<td>Estimated Totals</td>
<td>--</td>
<td>−$240,000</td>
<td>+$1,550,000</td>
</tr>
</tbody>
</table>

### Financial Model: No-Contract System

<table>
<thead>
<tr>
<th>Category</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Sponsorship</td>
<td>Sponsor: CA health insurer</td>
<td></td>
<td>+$1.3 million</td>
</tr>
<tr>
<td>Sustainability Funds &amp; Product Donations (in-kind)</td>
<td>Not likely when working with distributors</td>
<td></td>
<td>−</td>
</tr>
<tr>
<td>Marketing Funds</td>
<td>New sponsor funds their ads. HBI funds water promotion.</td>
<td></td>
<td>+$235,000</td>
</tr>
<tr>
<td>Beverages</td>
<td>We’ll likely get better prices b/c distributors won’t need to recover sponsorship (could mean lower retail prices); we may save ~$200k/yr, b/c not offering SSBs in dining halls (could help pay for new costs)</td>
<td></td>
<td>SUM to about $0. May save ~$200k/yr. Variable. How much we procure &amp; sell depends on consumers. Beverage expenditures &amp; revenues will still likely balance out.</td>
</tr>
<tr>
<td>Equipment</td>
<td>New SSB fountain equipment costs ~$800k. Vending machines cost ~$3-5k each. We save this $ by not offering SSBs In dining halls &amp; by using existing Canteen snack vending machines. Replacing retail beverage coolers &amp; concessions bev equipment will cost ~$150k.</td>
<td>−$150,000 (one-time fee)</td>
<td></td>
</tr>
<tr>
<td>Equipment Maintenance</td>
<td>UCB in-house maintenance can repair retail coolers if needed (variable cost each year). Vending machine maintenance would be part of existing Canteen agreement.</td>
<td></td>
<td>Cost will vary yr to yr</td>
</tr>
<tr>
<td>Staff to place beverages</td>
<td>UCB will need to hire 2 staff. ~ $120k/year</td>
<td>−$120,000</td>
<td></td>
</tr>
<tr>
<td>Transaction Costs (admin)</td>
<td>Multiple distributors → more invoices (potentially double)</td>
<td>−$480,000 (hidden labor costs)</td>
<td></td>
</tr>
<tr>
<td>Estimated Totals</td>
<td>Tangible expenses: ~$120k/yr + equipment maintenance + $150k one-time fee. $480k in hidden labor costs are likely intangible.</td>
<td>−$750,000 (+ maintenance)</td>
<td>+$1,535,000 (+ $200k in savings)</td>
</tr>
<tr>
<td>Cost Benefit Analysis</td>
<td>Current Pepsi Contract</td>
<td>No-Contract System</td>
<td></td>
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<tr>
<td>-----------------------</td>
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</tr>
<tr>
<td><strong>Health Care (indirect)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>COSTS</strong></td>
<td><strong>BENEFITS</strong></td>
<td><strong>COSTS</strong></td>
<td><strong>BENEFITS</strong></td>
</tr>
<tr>
<td>- SSBs → obesity, diabetes⁵</td>
<td>- $0/yr because Pepsi’s plethora of SSB products do NOT help to reduce health care costs</td>
<td>- Limit SSBs → reduce obesity &amp; diabetes prevalence⁶ → reduce health care costs (SAVE $86.9M/yr) for UCB faculty, staff, &amp; students</td>
<td></td>
</tr>
<tr>
<td>- Diabetes costs the U.S. $237B/yr²</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Obesity costs the U.S. 147B/yr²</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Environment (indirect)</strong></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>- Pepsi’s carbon footprint is 5.5M metric tons CO2e/yr⁴ X social cost of $50/ton⁵ = $275M/yr</td>
<td>- Pepsi provides sustainability funds (noted below), which supports UCB in purchasing recycling bins to promote waste reduction (hard to quantify)</td>
<td>- $0/yr because we will still be able to promote waste reduction using existing recycling bins</td>
<td></td>
</tr>
<tr>
<td>- Pepsi uses 2.3M tons plastic packaging/yr⁶ X plastic waste in oceans costs $33k/ton⁷ = $75.9B/yr</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial (direct)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- $240k/yr admin costs</td>
<td>- $1.3M sponsorship/yr</td>
<td>- $480k/yr admin costs</td>
<td>- $1.3M sponsorship/yr</td>
</tr>
<tr>
<td>- Pepsi likely increases product prices to recover sponsorship</td>
<td>- $235k marketing/yr</td>
<td>- $120k/yr added staff</td>
<td>- $235k marketing/yr</td>
</tr>
<tr>
<td></td>
<td>- $155k sustainability/yr</td>
<td>- $150k one-time fee to replace equipment</td>
<td>- No SSBs in dining halls</td>
</tr>
<tr>
<td></td>
<td>- $40k product donations/yr</td>
<td>- $15k/yr lost in sustainability funds</td>
<td><strong>SAVES</strong> $200k/yr</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$460,175,240,000/yr</strong></td>
<td><strong>$1,590,000/yr</strong></td>
<td><strong>$765,000/yr</strong></td>
</tr>
<tr>
<td><strong>Results</strong></td>
<td>COSTS outweigh benefits by $460,173,650,000/yr</td>
<td><strong>BENEFITS outweigh costs by $356,070,000/yr</strong></td>
<td></td>
</tr>
</tbody>
</table>

*The indirect costs under the Pepsi contract are based on costs to society, not on costs to our individual campus community.

**We acknowledge that the indirect health benefits under our proposed no-contract system are very rough estimates, and are not necessarily representative of the health status of individual members of our campus community.
REFERENCES for Cost Benefit Analysis: