

HEALTHY VENDING

A veteran negotiator tells how to balance nutrition and revenue in school vending contracts



BY ROGER L. KIRK

In the spring of 2003, the Fayette County Public Schools (FCPS) in Lexington, Ky., realized it had a problem. The district's soft drink vending contract was fast approaching its renewal date, and it had no snack-vending contract in force.

State and federal officials were debating multiple versions of bans or restrictions on soft drink vending in school districts. The recession was in full swing, and both the district and the vendor were feeling a financial squeeze. Momentum was building to ask the current vendor if it could agree to simply extend the existing contract.

Then a funny thing happened on the way to the soft drink machine—something that would change the course of soft drink and snack vending in the district and create healthy new vending options.

A local health department official who was working to develop a healthier approach to vending spoke to the district's parent-teacher-student organization on the impact of sugar in young people's diets, particularly from soft drinks. She noticed that one fellow made several suggestions and comments, so after the meeting she asked if he could spare a few moments the next day to meet with a few members of the school district vending committee.

That fellow she spoke to just happened to be me. I'd had 20 years' experience negotiating contracts, but it was the first time I had done something like this.

Within a few months, the school district had awarded a highly improved and financially beneficial new vending con-

tract for soft drinks and another one for snacks.

Here's a quick sketch of what we needed and what we got with the new contracts:

■ *Need:* At a minimum, maintain current revenue from vending machines. *Result:* A 35 percent rise in total projected revenues.

■ *Need:* Move to a healthier mix of items. *Result:* Increase from 12 percent "healthy options" (fruit juices, bottled water, and isotonic beverages) to 72 percent healthy options in the drink machines and from 1 percent (a stray granola bar somewhere) to more than 40 percent in the snack machines.

■ *Need:* Find a way to motivate staff and students to purchase more healthy-option items. *Result:* The district was able to achieve just that by increasing the prices of less-healthy items and placing healthy items at eye level so students could easily reach them.

The 'Rule of 51'

How did we get these results? By using common precepts of negotiation and not falling prey to common restrictions (such as selling soft drinks only during certain hours) or outright bans (not selling soft drinks in schools at all).

Most important, the district learned what I like to call the Rule of 51. A simple lesson in math is in order: How much is 75 plus 25? Even a kid knows the answer is 100. How about 40 plus 60? Again, the answer is 100.

Well, then, how much is 51 plus 51? Sorry, but the correct an-



swer *can* be 100.

Normal rules of addition do not apply in successful negotiations. In every transaction, there are two sides to the equation. In order for a deal to be perceived as fair, both sides must feel good about it.

The trick is to make each side feel it received at least 51 percent of the deal. Think of a recent shopping trip.

Let's say you just bought a new pair of shoes or a new DVD and thought you got a really good deal.

Now suppose the store manager had come up to you and said, "Take this—it's free today." If you think the way I do, you probably wouldn't even reach the door before you began to question that deal. You'd be wondering, "Are the shoes defective?" or "Is the DVD stolen?" Everyone questions a deal that pays off 100 percent.

Now let's speak to the perfect contract.

The perfect contract is strictly a fantasy. Each side of a negotiation has interests and values, and each side must feel its interests were met.

If either side feels it has received 100 percent of its interests, it would start wondering what the catch was. The trick, then, is to satisfy the interests of each side to the fullest extent possible without hogging the contract. How do you ensure that? Simply ask—it really is that easy. For example, we asked how many brand logos vs. action logos were displayed in the district. If we had not asked, the soft drink manufacturers would not have given up the brand logos and replaced them with action logos instead.

Public entities, especially, need to keep in mind that the vendor is *not* the enemy. The vendor has the expertise, the experience, the resources, and the tools. And—most important—it has the flexibility of options.

Three tiers of vendor management stand behind every negotiation. I call the top tier the originators. They are the ones who have a simple goal: increase shareholder equity. Consider the chairman of Coca-Cola. If he could ensure today that the company would make more money by selling only Minute-Maid orange juice, he would say the word without hesitation.

I call the next tier of vendor management the middlemen. They are the ones who have the job of carrying the vision of the originators forward and translating it for the next level, the implementers. The implementers get the work done, but they are often encumbered by experience and resistant to change. And by the time the message reaches them, it has sometimes lost

something in the translation.

Any negotiation will be affected by the level of management you're dealing with. If you're negotiating with the chairman, he or she will be more interested in returning stockholder value than the delivery person, who is more interested in getting the job done.

You own the pie

You've got something important going for you: the value of what you're negotiating about. If you're issuing the request for proposal (RFP) or awarding the contract, you own the value. Don't worry if you are not the biggest or best customer—size is only one component of value. As a public school district, you own the facilities. You have a captive audience, in terms of both staff and students. You possess marketing potential. In short, you hold the keys to the value.

Think of the value as a great pie. The *entire* pie is your value, not just one or two slices. Stay focused on the whole pie, and you'll be successful. In terms of vending contracts, consider the following variables that can be bid:

- Exclusivity monies: one-time monies paid for the privilege of being the only vendor.
- Annual monies: paid annually on the basis of a sales or marketing objective.
- Commission monies: percentages of monies paid periodically on sales.
- Free goods: goods or services delivered at no charge over the length of the contract.
- Guaranteed pricing: set level of procurement over the course of the contract.
- Educational programs: programs or services such as heart-healthy fitness seminars over the course of the contract.
- Marketing programs: programs or services such as giving free tickets to events sponsored by the company.

One tenet of successful negotiation is often overlooked: Know the facts. In the case of FCPS, the local county health department played a crucial role in this regard. Department personnel had conducted surveys before issuing the RFP and had gathered data on the current vending contract. This allowed the district to know where our strengths were and in which areas we were weakest. We had facts about the number and healthfulness of the items being vended, the pricing structure, and how the items were placed.

Armed with an understanding of your value and a knowledge of the facts, the next step is to state your vision. What do you want? Define it, and repeat it. FCPS had a simple need: We wanted to increase the healthy options in our soft drink and snack vending. The district was committed to options, not mandates or bans. We repeated this mantra over and over to vendors at each stage of the process. The magic of negotiation is that vendors will normally give you what you want—if it makes good business sense.

The value of aligning interests

Vendors live to make things work. Or they will, if you can do



one simple thing: You must align your interests with theirs. This is where the expertise of private enterprise takes over. If it is in the best business interests of both parties to expand the selection of healthy vending items, what do you think will be the result? Find ways to align the interests of your school district and those of the vendor, and you have a recipe for success.

Here's how it worked for Fayette County, beginning with how our RFP was structured. We designed an RFP that would specifically measure 17 different variables relating to soft drink vending. (Snack vending was similar but had fewer variables.) Each of these 17 categories, which included both monetary and nutrition issues, was then weighted with a point value. The bid would be awarded to the vendor that amassed the most points. This approach ensured that roughly half the bid would be related to monetary issues and roughly half to addressing healthy-option issues.

In essence, we put the ball into the vendors' court and said, "Bring us our vision: a soft drink vending system that will encourage the purchase of healthy products."

The vendors who bid bought into the process in a big way. Why? Because we laid things out in such a way that their interests—to increase shareholder value—were aligned with those of the district—to increase sales of healthier vending items, while maintaining or improving on current revenues.

In essence, should they have chosen to do so, one vendor could have thrown boatloads of money at the district, and the other vendor could have put all its energy behind influencing healthy-option behavior, and the bid would have ended up in a virtual tie. I am pleased to say that both vendors presented tremendous proposals.

FIVE NEGOTIATING MISTAKES

Here are what I call my five big bugaboos—that is, common errors in negotiating—plus suggestions for what to do instead:

■ *Error:* not setting goals and expectations. *Instead:* Determine your goals and philosophy up front, and articulate them clearly in your RFP.

■ *Error:* not using an expert. *Instead:* Control the process by finding an experienced negotiator who can help guide you through negotiations.

■ *Error:* not avoiding mandates and bans, which don't leave room for negotiation. *Instead:* Reduce adversarial relationships by providing opportunities for negotiation.

■ *Error:* not using vendors' expertise and initiative. *Instead:* Align the vendors' interests and yours to improve your cash flow and revenue streams.

■ *Error:* not creating and maintaining a level playing field. *Instead:* Make it a priority to increase business and vendor participation in the negotiations process.—R.L.K.

For example, we asked vendors to submit a percentage of healthy-option logos (basically action shots, or pictures of bottled water, and so forth) that they would place on our machines. To our surprise, both vendors presented nothing but such logos—gone were those big red and blue brand-name soft drink billboards. The interests of the vendors and of the district had magically become aligned.

Figuring out pricing

Now consider pricing. Our RFP included several variables that fell into this category, allowing the vendor to choose the pricing. All too often, vendors are simply asked to reduce pricing.

If you want to manipulate consumer behavior, it is actually more effective to raise the prices of undesirable items. In this case, we raised the price of all soft drinks above the prices of healthier items. A soft drink cost \$1.25, while bottled water or fruit juice cost \$1. Students still had the option to purchase soft drinks, but now their behavior would be influenced by the higher price.

A less obvious area of pricing is commissions. Our RFP was weighted to encourage higher-percentage commissions on healthy-option items. Again, both sides' interests aligned, because each side had a vested interest in the same result.

Another variable in the bid—the mix of products being vended—produced a wholly unexpected result.

The RFP measured the total number of SKUs (stock-keeping units—basically, the bottle or can) and compared it to the total number of healthy-option SKUs. The winner in this category would have the highest percentage of healthy-option beverages. One vendor found a way to align both interests by making a conscious decision to discontinue sales of soft drinks in cans altogether. This not only raised the vendor's healthy-option percentage but ensured more profit for the vendor, because the company makes more money on sales of bottles than cans.

The RFP also measured the dollar value of free goods to the district. We insisted that at least half of any free goods had to be healthy items. This is just another example of attempting to modify and influence consumer behavior. Have you ever wondered why you see so many product demonstrations in stores on the weekend? It's simply because marketers believe you will purchase a product if they can just get you to try it. Why not have staff and students try the healthy-option items, for free?

Let's face it—no one wants to contribute to childhood obesity by pushing junk food at school. And no one wants to forgo the supplemental revenue a district can reap from vending machines. But as Fayette County's experience shows, school districts can offer healthy options in their vending machines without losing money. All it takes is smart negotiations.

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