

Entrepreneur Finds Millions Are Left On Breakfast Table Despite Hungry School Children, Federal Funds Go Unused

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Twenty-nine million children, most from low-income families, eat federally funded lunch in school. But only nine million eat school breakfast. To federal and state officials, that gap is a big reason for the persistence of childhood hunger in America.

To entrepreneur Gary Davis, it's also a business opportunity. Those 20 million unserved breakfasts translate into nearly \$2 billion in federal money that could be claimed from school-feeding programs, but has been left on the table each year. In the summer of 2004 Mr. Davis wondered: What if he could get all the children who eat lunch in school to eat breakfast, too?

His answer: a grab-and-go meal of cereal, crackers and fruit juice, in small boxes that could be distributed on buses, in the cafeteria or in the first-period classroom. He launched his product at the beginning of last school year, and by the end, he says he was selling three million of them a month.

Long-neglected, school breakfast is becoming a sought-after market for business. At the same time, that business is driving participation in an underused government social program. Earlier this month, Kellogg Co. began selling its own breakfast-in-a-box to schools, which includes cereal, a Pop-Tart or graham crackers, and juice. Tyson Foods Inc. is adapting its popular lunchtime chicken nuggets and patties into smaller sizes for breakfast. Scores of other companies also are pitching breakfast items to schools.

As companies try to cash in on the before-the-bell market, they are fueling a debate about how to best serve hungry children. Nutritionists, trying to combat childhood obesity, say ideally, breakfast offerings should contain fresh fruit and more whole grains. But they also acknowledge that many children come to school hungry, without having eaten any breakfast at all.

For decades, schools focused on lunch—often believing children were eating breakfast at home—and so did many food companies. Now the school market “is pretty saturated as far as lunch goes,” says Min Jung Tavella, Kellogg’s associate director for customer marketing, prompting “a re-focus on breakfast.” She says that more schools are asking for breakfast products, believing that better-fed students learn more.

The push by food companies to make breakfast as much of a school-time institution as lunch comes at a time when hunger in the U.S., especially among children, is an acute issue. The U.S. Department of Agriculture reports that in 2004, 13.9 million children lived in households that didn’t have enough resources to purchase an adequate, balanced

diet throughout the year, compared with 12.7 million in 2001. Food banks and soup kitchens say many of those families show up on their doorsteps.

When he started zeroing in on breakfast in 2004, Mr. Davis’s company, East Side Entrees of Long Island, N.Y., was already a player in the school-lunch program, supplying products like SpongeBob SquarePants milk and Batman cheese pizza. But, as he learned, many schools didn’t offer breakfast, often because it was deemed too much hassle in the hectic moments before school begins.

Mr. Davis conjured up his idea of a pre-packaged meal, calling it Breakfast Breaks. He then assembled a coalition of lobbyists, charities and Washington insiders—including former Sens. Robert Dole and George McGovern—to persuade more schools to take advantage of the federal money by starting breakfast programs.

By the end of last school year, East Side says schools in more than 40 states were serving its Breakfast Breaks—which cost schools 80 cents each. As schools reopen for the new year, Mr. Davis expects to be providing four million Breakfast Breaks per month to about 650,000 children.

Federal support for school meals dates back to the Depression, when surplus farm commodities were funneled to schools for lunch. Congress formally established the lunch program in 1946 as a matter of national security after the military complained too many World War II draftees were being sent home suffering the effects of poor childhood nutrition.

The School Breakfast Program began in 1966, driven by worries that rural children traveling long distances to school and children in poor families weren’t getting full breakfasts. Congress made the program permanent in 1975.

Lunch has been embraced by most public schools, but even after three decades, breakfast hasn’t nearly caught up. That’s partly because many schools say they have trouble with the logistics. There’s little time as students scramble before the bell, and not much flexibility in bus schedules to get children to school earlier. Many schools lack enough early morning staffing or food-storage space.

In the 2004-05 school year, 17 million children ate free or reduced-price lunches, while another 12 million paid full price. Only 7.5 million children ate free or reduced-price breakfast, with 1.7 million paying full price.

Both school lunch and breakfast are federal entitlement programs with mandatory funding—meaning the government will reimburse school districts for every meal that meets USDA nutritional guidelines. During the 2004-05 school year, total federal school breakfast reimbursements were about \$1.9 billion, compared to \$7 billion for lunch.

Last school year, in most cases, the government reimbursed schools \$1.27 for each free breakfast served; 97 cents

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for each reduced-price meal, and 23 cents for each fully paid one. The reimbursements are to cover the cost of food, and help with the cost of cafeteria staff and equipment. Schools make their own food purchases from various vendors.

In states with the highest percentage of low-income students participating in both school food programs, such as Oregon, West Virginia and Kentucky, 55% of children who ate school lunch also ate breakfast at school, according to the Food Research and Action Center, an anti-hunger group. If all students who ate school lunch also ate breakfast, federal breakfast reimbursement would have soared to \$3.84 billion, the group says—meaning nearly \$2 billion went unused.

These numbers jump off the page to entrepreneurs like East Side's Mr. Davis and Ben Tabatchnick, of Tabatchnick Fine Foods Inc., of Somerset, N.J. For both companies, success depends on coming up with ideas that will appeal to schools as well as children, so they can tap the federal money.

"Our customers are four feet tall and 60 pounds," says Mr. Tabatchnick. His company has developed products for schools ranging from strawberry- and vanilla-flavored milk to raspberry smoothies to energy bars with apples and oranges. "We want children to pick up an energy bar instead of a candy bar," he says.

Mr. Davis, a 64-year-old former food broker, founded East Side Entrees in 1998 specifically to serve school food programs. He expects sales of Breakfast Breaks to reach an annualized level of more than \$100 million this school year, and says they will represent about 75% of his company's growth "this year and going forth." The privately held company makes "a modest profit margin" on the product, he says, but wouldn't be specific.

Kellogg says its breakfast box, called Morning Jump-Starts, sells for about 85 cents each. It is similar, containing a small bowl of a reduced-sugar version of some of its cereals, such as Froot Loops; a single package of Pop-Tarts or graham crackers, and a carton of fruit juice. On the packaging, Kellogg characters Tony the Tiger and Toucan Sam provide math, science, nutrition and fitness tips. Kellogg wouldn't provide sales projections for the product.

Demetrious Giovias, nutrition program director in the Gadsden Independent School District in New Mexico—the first district to order Breakfast Breaks—says he could assemble a similar meal for about 10 cents less than Mr. Davis charges, and serve it piece-by-piece as students moved through a line. But Mr. Giovias says he orders about 6,000 Breakfast Breaks a month because they're convenient, attractive to children, and additional staff isn't required to serve them. He says participation in the breakfast program increased 15% since the district began offering Breakfast Breaks last year.

Nutritionists are exhorting schools to serve healthier

food and suggest, for instance, that grab-and-go breakfasts could be better if they contained fresh fruit. "Could they be improved nutritionally? Probably. Would kids eat it? That's a question," says Ruth Jonen, past president of the School Nutrition Association. Still, she says the product is a good start. "If it improves participation in the breakfast program, we'll take it and hopefully improve on it over time."

To qualify for reimbursement, each breakfast must meet the USDA nutritional standard of two breads (which could be cereal or crackers), or a bread and a protein. Meals must also include a vegetable or fruit (which could be juice) and milk.

Kellogg's Ms. Tavella acknowledges that for pre-packaged products like the company's Jump-Starts, "fresh fruit is a challenge." Mr. Davis says including perishables like fresh fruit would compromise his product's handiness, but he encourages schools to offer fruit with them. "In business, you have to set priorities," he says. "Our objective is to reach out to millions of kids who aren't being fed."

Mr. Giovias, of the New Mexico school district, says he does put out fresh fruit, but few students take it at breakfast; they prefer it in the afternoon. "If the child doesn't eat what you put on the plate, it has zero nutritional value," he says.

To bolster his courting of schools, Mr. Davis sought a partnership with the National Dairy Council, which represents dairy farmers. He aligned with non-profits Share our Strength and the Alliance to End Hunger and donates a portion of his sales to those and other groups; for 2006, he expects donations to total about \$1 million. The California Milk Processor Board allowed the coalition to adapt its famous marketing slogan, "got milk?"

By then the "got breakfast?" coalition needed a credible spokesperson. Mr. Davis considered entertainment personalities and cartoon characters. Instead, he tapped Sens. McGovern and Dole.

Sen. McGovern, a Democrat, and Sen. Dole, a Republican, were two leading members of the former Senate Select Committee on Nutrition and Human Needs. They made the school-breakfast program a permanent entitlement and expanded other child-feeding initiatives. For the past two years, the octogenarian senators have traveled the country, addressing local politicians, school administrators and media about the need for school breakfasts. They're unpaid, but the coalition picks up their expenses.

The senators are disappointed that more children haven't benefited from breakfast money the government has set aside.

"Children can't vote, so this is a reverse pork-barrel situation," says Mr. McGovern. "If Congress appropriated money to improve old-age assistance, you think that money would lie on the table in Washington? Those old people vote, they talk to their members of Congress."