Date: October 24, 2006

TO:	**Board Members – Vancouver Park Board**
FROM:	**General Manager – Parks and Recreation**
SUBJECT:	**Award of Soft Drink Supply and Sponsorship Contract**

RECOMMENDATION

A. ***THAT the Board approve the award of a "Soft Drink Supply and Sponsorship" contract (the "Contract") to Coca-Cola Bottling Company from December 1, 2006 to November 30, 2016 for a total value of $2,545,000 plus 33% commission on all vending machine revenue.***

B. ***THAT no legal rights shall arise and no consents, permissions or licenses are granted hereby and none shall arise or be granted hereafter unless and until all contemplated legal documentation has been executed and delivered by all parties.***

C. ***THAT, once the form of all legal documentation has been approved by the General Manager and the Director of Legal Services for the City of Vancouver, the General Manager be authorized to execute and deliver such documentation on behalf of the Board.***

POLICY

In June 1995, after a lengthy public process which included special information meetings and meetings with the community centre associations, the Board approved Corporate Sponsorship Guidelines.

BACKGROUND

In June 1996, the Board approved a 10-year contract with Coca-Cola (Oct 1, 1997 – Sept 30, 2006) for soft drink supply and sponsorship (the "previous contract"). The net cash sponsorship paid to the Board over 10 years was $2,170,000 plus 30% in commission on all vending machine sales over 9,000 cases of canned and bottled drink per year. The net return to the Board, after taking into account pre-existing vending commissions on the first 9,000 cases of beverages and payment to the sponsorship consultant (Spectrum Marketing), was $1,130,250.

DISCUSSION

Soft drinks are sold in the Board's 15 concessions, 3 clubhouses and 80 vending machines located in community centres, recreation buildings and offices.

The previous contract expired on September 30, 2006; therefore, a Request for Proposals ("RFP") for a new 10-year Contract was issued in August and opened on September 22, 2006. Two proposals were received: one from Coca Cola Bottling Company ("Coca-Cola"); and one from the Pepsi Bottling Group ("Pepsi").

Interviews were conducted with the two proponents by a three member staff team, and the recommendation of Coca-Cola as the Board's exclusive "soft drink" supplier for the next 10 years is based on the following evaluation:

Annual Guaranteed Payment

The total guaranteed payment by Coca-Cola (over the term of the Contract) of $2,275,000 was higher than that offered by Pepsi. There are no conditions to this payment and it escalates from $200,000 in Years 1-3 to: $225,000 in Years 4-6; and $250,000 in Years 7-10. The objective of these payments is to provide the Board with additional funding for its choice of projects over the term of the Contract.

General Marketing Fund and Product Support

The payment of the annual marketing fund (totaling $220,000 over 10 years) will be spent on marketing initiatives which jointly benefit both the Board and Coca-Cola. Specific use of this funding will be agreed upon annually by both parties.

Coca-Cola will also contribute product to a value of $5,000 annually ($50,000 over 10 years) to support community programs, volunteers and staff throughout the Board's recreational facilities.

Vending Commission

Coca-Cola has offered the Board 33% of gross sales from vending machines, a 10% increase from the previous contract which paid 30% of gross sales. Coca-Cola has forecast that the vending commissions will generate $2,047,000 over 10 years.

It should be noted that prior to the previous contract a variety of vending companies paid the Board and community centre associations approximately $80,000 per annum (community centre associations receive the commission from vending machines at the centres).

Product Cost and Price Protection

The 1996 proposal from Coca-Cola included product costs that were either similar or slightly higher than the Board's "pre-sponsorship" tender awards. In order to ensure some price protection over the term of the previous contract, the previous contract limited any price increase to the percentage increase in the Consumer Price Index (all items) for B.C., up to a maximum of 3%. As an example, Coca-Cola increased their prices in 2006 by 2.2%. A similar clause will be incorporated into the Contract.

Based on the quantity of actual product purchases in 2005, such products would cost the Board approximately $213,300 per year using the new price list submitted by Coca-Cola. This cost is $13,500 lower than the estimated cost of such products ($226,800 per year) using the price list in the previous contract.

Coca-Cola Products

The following is a partial product listing of cold beverage drinks that would be provided by Coca-Cola:

<u>Carbonated Drinks</u>
Coca-Cola Classic
Diet Coke
Sprite
Nestea Cool
Fresca
Barq's Root Beer
A&W Root Beer
Canada Dry Ginger Ale
C+ Orange Burst

<u>Powerade</u>
7 Assorted flavors

<u>Energy Drinks</u>
Full Throttle
Rockstar
Tab

<u>Non-Carbonated Drinks</u>
Minute Maid Orange/Apple/Lemonade
Minute Maid Cranberry/Pink Grapefruit
5-Alive
Nestea Lemon/Raspberry/Green Tea
Arizona Ice Tea
Fruitopia (6 flavors)

<u>Water</u>
Dasani reg
Dasani (3 flavors)
Evian

In the Contract:

- There will be an allowance for the Board to purchase up to four flavors of an alternative branded soft drink beverage from a company other than Coca-Cola (provided that such company is not a major competitor of Coca-Cola). This will enable the Board to sell a popular beverage from another supplier and complement the selection of the chosen supplier.

- The Board will also be able to sell beverages that do not compete with the selection of Coca-Cola products (e.g. milk), subject to first notifying Coca-Cola of its intent.

Equipment

During the term of the Contract, Coca-Cola has agreed to loan fountain dispensers for carbonated drinks, refrigerated display units and vending carts to the Board for use in the Board's facilities.

Relationship with the Board's Leased Restaurants and Facilities

In the Contract, reference will be made to the Board using "reasonable efforts" to encourage the lessees of the Board's leased restaurants and other facilities to purchase soft drink beverages from the successful proponent. However, such lessees will still have the choice as to which supplier(s) they wish to use for such products.

During the term of the Contract, all new leases that are signed, other than by way of renewal or assignment, will be required to purchase their soft drink products from the successful proponent.

Summary of the Total Value of the Contract over 10 Years

Cash Payment	**$2,275,000**
General Marketing Fund and Product Support	**$ 270,000**
	$2,545,000
Plus:	
Projected Vending Commission	**$2,047,000**
Total:	**$4,592,000**

SUMMARY

Coca-Cola's proposal offers the greatest financial return to the Board. The relationship with Coca-Cola during the past 10 years has been mutually successful, and there is every indication the next 10 years will bring an increase in sales for both the Board's food services and the vending operations. In addition, the substantial sponsorship payment will enable the Board to fund services and programs that would not otherwise have been able to take place due to the competition for the Board's existing funding streams.

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