OFFICE OF THE CITY MANAGER

April 23, 2001

**TO**: City Council

**FROM**: City Manager

**SUBJECT**: AUTHORIZATION TO ENTER INTO A CORPORATE SPONSORSHIP/MARKETING AGREEMENT WITH COCA-COLA

On April 19, 2001 the Business Enterprise Committee unanimously approved the attached staff recommendation with the following addition: The license agreement with Coca-Cola shall include a provision that prohibits the licensee from using the City's name, trademarks, or associated likenesses without the express written consent of the City.

Cynthia Kurtz

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City Manager

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# Agenda Report

**TO**: CITY COUNCIL **DATE**: APRIL 23, 2001
**Through**: Business Enterprise Committee

**FROM**: CITY MANAGER

**SUBJECT**: AUTHORIZATION TO ENTER INTO A CORPORATE SPONSORSHIP/MARKETING AGREEMENT WITH COCA-COLA

RECOMMENDATION
It is recommended that the City Council authorize the City Manager to enter into a corporate sponsorship/marketing agreement, without competitive bidding pursuant to City Charter Section 1002(F), contracts for professional or unique services, with Coca-Cola that will provide for the placement of beverage vending machines at City facilities in exchange for a 40% portion of revenues as well as other promotional support. The term of the agreement shall be five years with two, three-year optional extension periods subject to the approval of the City Manager and without further City Council consideration.

Recommendation of Recreation & Parks Commission
On April 3, 2001 the Recreation & Parks Commission unanimously endorsed the staff recommendation.

BACKGROUND
A number of public agencies have entered into corporate sponsorship/marketing agreements with the two large soft drink distributors, Coke and Pepsi, as a way of generating additional revenue. Typically these agreements provide the corporate sponsor the right to place beverage vending machines at public facilities in exchange for an annual fee/percentage of revenue.

Believing a similar agreement would further the City Council's goal of reinvesting in parks and parkland, staff presented the concept to the Recreation and Parks Commission in April 1999. The Commission gave conceptual approval and referred the item to its Capital Improvement/Revenue sub-committee for further consideration. Staff held discussions with the sub-committee, focusing mainly on the placement of vending machines at various recreation and park facilities.

At its September 7, 1999 meeting the Recreation and Parks Commission formally endorsed the idea of generating additional revenue for recreation and parks programs through corporate sponsorships/marketing agreements. The Commission agreed to support staff's efforts in developing such partnerships and assigned the Capital

Improvement/Revenue sub-committee to work with staff in this regard. Subsequently, the City Council through the Business Enterprise Committee, authorized the City Manager to negotiate a corporate sponsorship/marketing agreement.

In May 2000, staff made contact with representatives of the Coca-Cola Bottling Company of Southern California and the Pepsi Bottling Group. Working in concert with staff of the Rose Bowl Operating Company (RBOC), staff presented Coke and Pepsi an opportunity to submit proposals for corporate sponsorship/marketing as well as beverage dispensing and advertising rights at the Rose Bowl Stadium.

In mid-September, Coke and Pepsi submitted proposals. As it turns out, both Coke and Pepsi treat the corporate sponsorship/marketing portion i.e., the City facility vending machine concession, separate from the beverage dispensing and advertising rights element. Consequently, each firm split their proposals into two parts.

City staff has completed an analysis of the corporate sponsorship proposals. The proposals dealing with the Rose Bowl Operating Company have proven more complex as that agreement involves both beverage dispensing rights as well as advertising. The Rose Bowl Operating Company is continuing to negotiate with Coke and Pepsi, however, it is unclear when this process will be complete. Rather than delay further, staff recommends moving forward on the City-side.

Based on staff's analysis of the proposals as they related to the placement of vending machines, Coca-Cola offers the City best overall value. The following summarizes how the two proposals compare in several categories.

Product Offering
Both Coke and Pepsi are offering to place similar types of vending machines, each with a wide variety of drink choices. Coke has offered to develop vending machine cover art specific to Pasadena.

Installation Expenses
Coke has included up to $300 per unit towards installation of electrical equipment necessary to operate the vending machines. Pepsi has allotted $200 per unit. Under either proposal, the City will have to pay the on-going electrical costs that are expected to be between $10–12 per machine per month.

Stocking and Maintenance
Both Coke and Pepsi will take full responsibility for stocking and maintaining the machines.

Promotions & Sponsorships

Pepsi offers the following in the way of promotions & sponsorship:

- 100 cases of 12oz. can products per year free of charge
- 2 recycling barrels for each City park
- Banners for community events
- Product sampling promotions
- Participation in national promotions e.g., instant win campaigns

Coke has proposed:

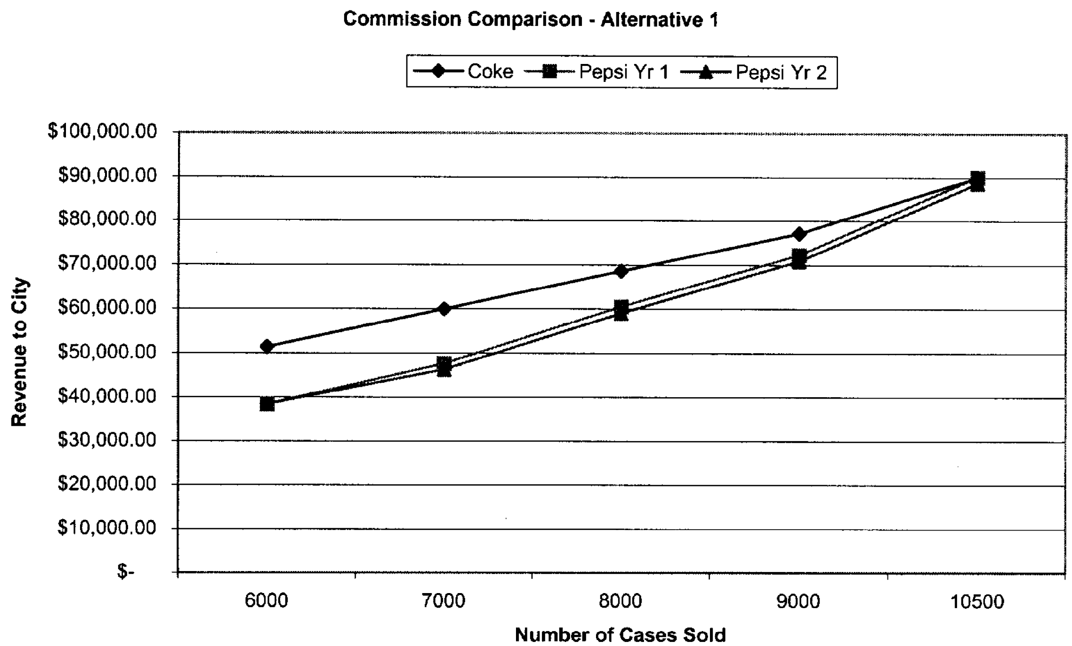
- One recycling barrel for each City park
- 100 cases of 12 oz. can product per year free of charge
- 1,000 tickets for youth to attend a Dodger game including free hot dog and coke
- $5,000 donation in years 1, 2 and 3 of the agreement (total $15,000) for Adopt-A-Park program
- Coke has also suggested murals, basketball backboards and additional promotions that were not part of their formal proposal

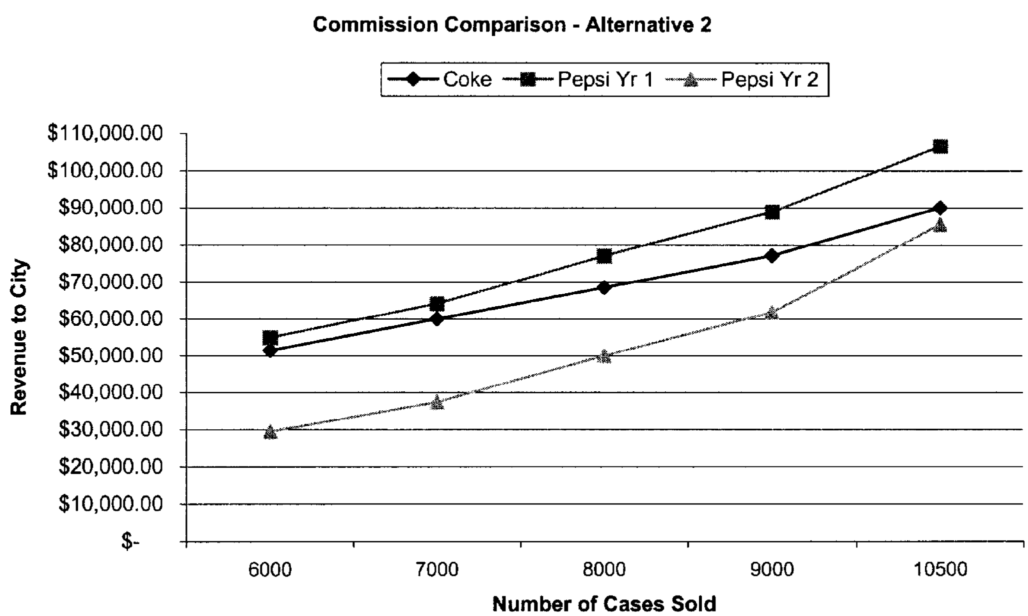
Commissions

Coke has offered the City a commission rate of 40%. Coke estimates this will translate to approximately $70,000 per year for the City.

Pepsi's commission structure is more complex, combining a fixed guaranteed annual payment plus a commission structure for sales exceeding certain annual benchmarks. Pepsi has offered two variations on this theme. The first alternative is for a fixed annual payment of $38,444 per year for 10 years. The second alternative provides $55,000 in the first year, which is reduced to $29,442 for years two through ten. The commission element for each alternative is based on the number of cases of product sold that exceed the annual benchmarks, which themselves rise each year.

The following graphs illustrate the difference between Coke's proposal and Pepsi's two alternatives by projecting the amount of revenue the City would receive based on various sales volumes. Because the level at which commissions commence under Pepsi's proposal changes each year, a Year-one, and Year-two calculation has been included as a way of demonstrating how this would impact the City's share of revenues.




As indicated by the first graph, Coke's proposal for a straight 40% commission would be more profitable to the City provided sales do not exceed 10,500 cases in the first year. Since Pepsi's commission threshold rises each year, in Year-two it would take sales of around 11,000 cases to yield more revenue than would be realized through Coke and this "cross-over" point would continue to move up in subsequent years. Based on discussions with both firms, staff does not believe sales will reach the level that would make Pepsi's offer more lucrative than Coke's.

Pepsi's second alternative would provide the City guaranteed revenue of $55,000 in the first year, which may exceed commissions that would be received under Coke's proposal. However, in all subsequent years the guaranteed payment to the City would be reduced to $29,442, which becomes the base on to which the potential growth incentives are applied. As a result, the second alternative would yield less revenue over time than Pepsi's first alternative. Consequently, Coke's proposal is more advantageous to the City than either of Pepsi's alternatives.

FISCAL IMPACT

Under the terms of the proposed agreement, the City will receive 40% of the commissions from the sale of beverages from vending machines placed by Coca-Cola. It is expected that this will result in approximately $70,000 per year to the City. In addition Coca-Cola will provide the City $5,000 per year for the first three years of the agreement towards park renovation.

The revenues received from vending machines used by the public, such as those in City parks, will be reinvested in parks and parkland. Commissions coming from machines located in areas used exclusively by City employees will be directed toward employee recognition and appreciation activities.

Respectfully submitted,

Cynthia J. Kurtz
CITY MANAGER

Approved by:

Jay M. Goldstone
Director of Finance

Prepared by:

Steven B. Mermell
Purchasing Administrator