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## CITY OF KELOWNA

# MEMORANDUM

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**Date:** December 9, 2002  
**File No.:** 2240-20  
**To:** City Manager  
**From:** Cultural Services Manager  
**Subject:** **Strategic Alliance Agreement - Pepsi Bottling Group**

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### **RECOMMENDATION**

THAT Council receive, for information, the report dated December 9, 2002 from the Cultural Services Manager pertaining to a 10-year agreement for the exclusive supply of cold beverages in City-owned facilities with the Pepsi Cola Bottling Group;

AND THAT Strategic Alliance Agreement (Pepsi Cola Bottling Group) Authorization Bylaw No. 8945 be advanced for reading consideration;

AND THAT the 2003 financial plan include the allocation of the revenues generated by the agreement to the Major Facilities Reserve should the agreement authorization bylaw be adopted.

### **BACKGROUND**

In 1999, the City formed a consortium with the Okanagan University College and the Interior Health Authority / Kelowna General Hospital Foundation for the purposes of acquiring an exclusive supplier of cold beverages for our many facilities. The objective was to investigate a Public Private Partnership in order to generate new revenue through the sale of cold beverages, as well as improve the customer service at various facilities.

By the fall of 1999, the consortium hired Spectrum Marketing Ltd. to provide consulting services to assist the consortium.

Throughout 2000, Spectrum Marketing conducted substantial research to determine the potential economic value of an exclusive agreement for each party in the consortium, and prepared the proposal call for such an exclusive supplier. That RFP closed on December 22, 2000,

In January, 2001, a thorough evaluation of the proposals was conducted.

Pepsi Cola Bottling Group (Canada) Ltd. provided the best proposal as determined by each party to the consortium. Some of the key deciding factors are;

- ◆ exclusive rights fees paid to each member of the consortium ,
- ◆ the guaranteed commissions paid to each member of the consortium,
- ◆ the value of other goods, such as score clocks for our stadiums and arenas,
- ◆ additional beverage product for our use in our events and programs.

In February 2001 the City of Kelowna decided to pursue an exclusive cold beverage agreement with the Pepsi Bottling Group, for selected City facilities as identified on SCHEDULE A of the agreement.

The City of Kelowna now has a finalized agreement with the Pepsi Bottling Group. Okanagan University College concluded negotiations and signed an agreement in June 2001. The Okanagan Similkameen Health Region / Kelowna General Hospital Foundation concluded negotiations and signed an agreement in October 2002.

## **DISCUSSION**

The Strategic Alliance Agreement is attached to *Agreement Authorization* Bylaw # 8945. The final *adoption* of the *bylaw* will be subject to the *successful* completion of the counter petition process.

Highlights of the benefits the City of Kelowna receives through this agreement include;

1. Guaranteed annual cash rights Fees and guaranteed minimum commissions over the 10 year agreement term as per the following;

	Rights Fees	Commissions	Total Gross Revenue
Total	\$231,000	\$205,140	\$436,140*

\*Note: A portion of the total revenues will be paid to Spectrum Marketing Ltd. as consulting fees over the 10 year period.

2. Guaranteed "wholesale" pricing of product to all City designated purchasers;
3. Inclusion of Sun Rype products;
4. Scoreclocks and / or scoreboards up to an aggregate value of \$44,500;
5. Stocking and maintenance of all vending machines with superior customer service;
6. All recycling collection containers
7. City retains the right to the value of the recycled bottles and cans;
8. 40 cases of Pepsi products for City of Kelowna use as well as up to \$1,000 additional "in kind" product;
9. Special discount pricing for tournaments and special events held in City facilities;
10. Pepsi to establish a marketing fund for both Pepsi and Sun Rype products to support events and activities in City facilities;
11. Total Sport Packages annually for special events and tournaments;
12. 40 new vending machines at new locations (including outdoors) at no cost to the City;
13. Vending machines will accept the use of debit cards and smart cards

The City provides a comprehensive list of our contract operators in the designated City facilities. These businesses and groups are identified as "designated purchasers." These designated purchasers will be required under our separate individual agreements with them, to exclusively sell Pepsi and Sun Rype products.

There is provision, however, for the many one-time activities termed '*third party events*' for the organizers to provide cold beverages of their choice.

Although Pepsi will be establishing advertising signs, all such signs will conform to City bylaws and are generally restricted to equipment, scoreboards, menu boards and temporary banners during approved events.

The Strategic Alliance Agreement specifies a minimum volume of cold beverage products to be sold through City facilities (Schedule A of the agreement) during the 10 year contract period. If the volume requirements are not met at the end of the 10 year contract period, then the Pepsi Bottling Group will remain as the exclusive supplier of cold beverages for up to an additional two years with no rights fee payment to the City. Pepsi will, however, continue to pay commissions on products sold.

Staff are recommending that these new funds be placed in the Major Facilities Reserve account for future Parks and Leisure Services capital projects. The positive impact of these funds can be better realized, as these funds will be dedicated on a project by project basis back to the facilities from which the funds are generated.

## **SUMMARY**

The entire process had been long and complex. This has been due to establishing a consortium, hiring a consultant, researching the viability and profitability of an exclusive agreement, conducting a Request for Proposals, evaluating the proposals, selecting a successful proponent and then negotiating three separate agreements. The three member groups of the consortium have different approval process requirements when negotiating a long-term arrangement. Notwithstanding the extended time and the complex process involved, staff are satisfied with the results, and are pleased to present this agreement for Council's consideration.

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JWR Oddleifson  
Cultural Services Manager

Pc     Director of Parks and Leisure Services  
       Financial Planning Manager  
       Assistant City Clerk