COLA WARS: AN INTERACTIVE LEARNING EXPERIENCE AND CASE STUDY

Rick Darnold, Lee Business School, University of Nevada Las Vegas,
4505 Maryland Parkway, NV 89154, 702-895-3960, rickdarnold@boydgaming.com
G. Keong Leong, Lee Business School, University of Nevada Las Vegas,
4505 Maryland Parkway, NV 89154, 702-895-3960, keong.leong@unlv.edu

ABSTRACT

A key contract for non-alcoholic beverages is going to expire in the coming months. Due to the complexity and significance of this category, you have been assigned to lead a cross-functional sourcing team which includes procurement, food and beverage, legal and marketing. Your goal is to facilitate as team leader, the understanding of this category including Green Felt Resort's Business Requirements, market and financial risks, strategy creation, options evaluations and analysis. You will be required to make a recommendation on supplier(s) selection to senior management.

INTRODUCTION

Green Felt Resort (GFR) is a multi-jurisdictional resort and convention company headquartered in the West and has properties in substantially all major US domestic tourism and business travel markets. GFR manages its operations both on an enterprise level along with regional management and oversight, i.e., West, Midwest, South and East Coast Regions. The hospitality and convention market segments have experienced material declines in business and there is increased pressure to drive incremental revenues from all sources.

Through merger and acquisition activity GFR has contracts with the two major domestic Cola companies, **Red Cola Company (RCC**) and **Blue Cola Company (BCC)**. BCC is contracted with several of GFR's properties located in the Western Region and represents about <u>one-third</u> of the total of GFR's business. RCC has contracts for the remainder of the properties located in the Western Region as well as all other properties in the Midwest, South and East Coast Regions. GFR currently earns sponsorship and marketing dollars based on volume from both cola companies and these funds are generally used for marketing and offset marketing expense which has a direct impact on bottom line profitability.

RCC AND BCC COLA

RCC and BCC are both Fortune 100 companies with global reach and operate in over 200 countries. Both have been in existence since the late 1800's and are headquartered in the United States and dominate market share domestically. RCC is headquartered in South Region and accordingly has a stronger market presence in this area of the country. BCC is headquartered in the East Region and its brand is generally preferred in this part of the country as well as the Midwest. The cola company's long history includes many legal disputes particularly over contracts, trademarks and formulas. Each company is particularly sensitive in doing anything that would be construed as any infringement or interference with their competitor's contracts.

To gain market share, each cola company provides volume based marketing incentives to their customers in the form of cash payments. Each cola company has strong and established brands and volume based marketing incentives are a critical element gaining market share. Experience has shown that the cola companies provide significant signing bonus or upfront payments of sponsorship dollars which are earned over the term of the deal. The cola companies also provide for other non-cash marketing opportunities to leverage its brand with their customer's brand. Examples may include special promotional events or appearances by celebrities or athletes.

Both cola companies provide a broad variety of non-alcoholic beverages including sodas, energy drinks, juices, teas and coffee products. The majority of the product used is in the form of liquid syrup which is called bag-in-box (BIB) and is distributed through centralized pumping stations to the fountain guns. In addition, both cola companies provide bottle, canned beverages and vending machines which are provided and distributed throughout their customer's operations.

The cola companies own, install and maintain all equipment used in the distribution of their product. The contracts provide for exclusive pouring and distribution rights and both RCC and BCC are diligent in ensuring that competitive products are not used.

Each cola company strategically focuses on business segments that drive significant visitor volumes. They believe that brand exposure especially in the hospitality and business travel market segments provides impressions that may compel consumers to choose their product over the competitors for consumer related purchases.

CURRENT LANDSCAPE – RCC

RCC has been a supplier to GFR for over twenty (20) years and has been aggressive in order to maintain their business with GFR. Contracts periods have been generally over three (3) to five (5) year terms. RCC's contract with GFR's is going to expire in the next few months.

GFR sponsors many different events including motor sports and is an official sponsor. RCC is also a major sponsor of motor sports throughout the nation and has integrated its marketing along with GFR. There is concern by some members of the sourcing team and senior management that eliminating RCC in favor of BCC may adversely impact GFR's motor sports marketing strategy. This issue may be mitigated by BCC if they have the ability to successfully market in this space. RCC has a stronger brand presence than BCC in the South Region.

CURRENT LANDSCAPE – BCC

BCC has a contract for several of GFR's properties in the Western Region and the original contract was based on volume commitment instead of a fixed term. Due to a downturn in business, the BCC contract has taken longer to fulfill and is expected to expire in four (4) years. BCC paid a significant upfront sponsorship which was based on a volume commitment and there is currently in excess of $400,000 paid and not earned. There is strong consumer preference for BCC's products especially in the Midwest and Eastern Regions. BCC is also a major sponsor in national event marketing and does participate in motor sports, but not to the extent of RCC.

CURRENT LANDSCAPE – GFR

RCC, being sensitive to its competitor's contracts, will not bid for the properties that are contracted with BCC. However, BCC can bid for the balance of properties currently under the RCC contract which will be expiring.

Both cola companies annually increase pricing and will not deviate from national pricing standards and pricing increases are consistent by both companies. Taking into account pricing differences and early pay discounts, there are not material differences in the price of the products and cost of goods sold.

Senior management has indicated that the financial results need to be significant in order to make changes citing customer preferences especially in the South Region and the general business disruption that any change would create. One of the executives in senior management believes it is beneficial to have two suppliers doing business with the Company. She believes they keep each other honest and ultimately provide for better service. Both cola companies have provided exceptional service over the last several years and RCC in particular has developed strong relationships with certain members of GFR's senior management.

GFR has properties in most of the major domestic markets that drive significant visitor volumes. The cola companies have targeted these markets as an important element of their overall strategic plans to advance their brands and national sales. It is extremely important for each cola company to gain market share on the other. Due to the barriers to entry, there are no other alternative cola companies that GFR wishes to pursue.

Both cola companies contractually own all the distribution equipment. One exception is that RCC contractually owns the lines from the pump rooms to the bars. RCC has indicated that they would take back their distribution lines which would have material impacts on the facilities. BCC has indicated that each cola company has historically extended a professional courtesy with respect to previously installed lines and do not take them back.

RCC has indicated that they would put together a compelling financial package on extension of the current agreement for another four (4) years if GFR did not go out to bid. BCC has indicated that they would also be very competitive if they were able to get the volume related to RCC's two-thirds of the GFR's business.

One of GFR's direct competitors, Happy Hotels who also has a presence in all major hospitality destination and convention markets recently made the change to BCC.

The challenge for GFR management is to decide which strategy to pursue with respect to supplier selection.

TEACHING OBJECTIVE

In many sourcing or strategic acquisition initiatives, the focus is generally on what the Company or acquirer will get. This case study emphasizes the concept of Opportunity Cost, **what don't we get** by pursing a particular strategy.

(Teaching Notes available upon request)