

Costco Axes Coca-Cola Over Pricing Disputes

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ATLANTA (AP) — Costco customers may have to look elsewhere for Coca-Cola products now that the retailer has stopped carrying them because the pair are fighting over prices.

The public squabble between one of the nation's largest wholesale club operators and the world's largest soft drink maker is likely to fizzle quickly. But it reveals real tensions as retailers and product makers square off on prices.

As shoppers continue to grapple with the recession, retailers want to win their favor by giving them low prices. But that has been creating tension between product makers like Coca-Cola Co., who are working hard to maintain profit margins while meeting retailer demands.

Typically such negotiations take place behind the scenes, but once in awhile, a public dispute erupts.

"Beneath this surface of harmony, it's a dogfight out there," Gerry Khermouch, editor of Beverage Business Insights, said Tuesday at an investor meeting held by the soft drink maker at its hometown of Atlanta.

Retailers want to wield more power in determining pricing with product makers, who they depend on to stock their customers' favorite brands, Khermouch said.

Costco has been aggressive in putting up signs on store shelves and notices on its Web site.

"Costco is committed to carrying name brand merchandise at the best possible prices. At this time, Coca-Cola has not provided Costco with competitive pricing so that we may pass along the value our members deserve," said a message on the company's Web site labeled "Price Alert!"

A Costco executive confirmed the move Monday but would not discuss the matter further.

The wholesale club operator, based in Issaquah, Wash., is not removing products like Coke and Diet Coke from store shelves, but it does not plan to restock them "until the matter is resolved," according to the message on its site.

Coca-Cola said in a statement late Monday it won't comment on ongoing negotiations but said Costco is an important customer and that it is committed to working with it "in a spirit of fairness."

This dispute is notable given the size and visibility of both companies, said Jim

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Hertel, managing partner at retail consulting firm Willard Bishop.

"It's not unprecedented, but it doesn't happen every day," Hertel said.

Earlier this year grocer Delhaize SA in Belgium said it would no longer stock at least 250 Unilever products because the food and consumer products maker was making "unprecedented" demands that would force retail prices up 30 percent, the two companies reached an agreement within months.

But the pricing pressure is more intense at Costco, whose business model is designed around offering lower prices than traditional retailers.

Hertel said most likely, the companies will recognize there is a mutual interest and will find a way to resolve it.

"These are complex relationships and hugely valuable," he said.

Who will win? Beverage analysts said don't bet against that famous logo.

"This is not going to bully Coke into changing its pricing strategy," said John Sicher, editor of trade publication Beverage Digest. "I think Coke is going to basically be focused on the right price and right market for its products, no matter what."

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