COLA WARS



Teacher’s guide

This is a simple, easy-to-run activity that that introduces some powerful concepts:

 conditions for perfect competition

 returns under perfect competition

 going rate pricing

 non-price competition

Make the scenario appear realistic in its setting – there is also scope for humour! The 'rules' for stallholders are crucial and, of course, create a situation in which perfect competition leaves cutting price as the only competitive strategy. If the groups behave rationally – and they usually do – then prices across the stalls must fall towards a bare minimum margin.

This all makes an excellent starting point for the last agenda item. Would a real business be happy with earning this 'bare minimum'? Clearly not: indeed, it would make the business into a marginal firm on the brink of closing down.

At this stage, ask the groups what they would now do if allowed to differentiate their offerings (ie exploit non-price competition) and rebuild their margins away from the 'bare minimum'. Suggestions could be collated on the whiteboard.

Can the students think of real examples where firms have learned to differentiate a basic product? (fruit juice) Or worked backwards from a value-laden product towards a basic product? (air travel)

**Agenda for the students**

⏺ What percentage of the market did groups hold in each round?

⏺ How has the average price across the groups changed over the three rounds?

⏺ What does this pattern suggest?

and finally

⏺ If you were allowed to introduce non-price competition, what would you now do?

A de-briefing discussion follows.

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Student's Guide

It is a brilliant sunny Saturday in June. It is also the day of the local fête where you and your friends are running a stall selling soft drinks.

The fête will start at 2 pm on a level rectangular field where a wide range of traditional amusements is to be offered. The organisers have set strict rules for the sale of drinks. Four rival stalls are to be allowed, each to operate from an identical table and only to offer unbranded cola in 25cl plastic cups. This means that there can be no discounts for multiple purchases, no ‘buy one, get one free’ offers, no prize draws etc.

Using the local cash & carry for supplies, each drink will have a cost price of 20p. Stallholders can charge any price that they wish and prices will be set in secret and revealed only when the fête opens. No stall can then change its price until the organisers make an announcement.

There are several other important assumptions that affect the stallholders:

* Stalls are equidistant from the amusements and price is the only basis on which customers will prefer one stall over another
* No queue of a significant length will develop
* All stalls have enough stock to meet demand.

Cola wars can begin.

**Running the simulation**

1. In the event, the organisers allow changes of price at 2.30 and 3.00. There are thus three ‘rounds’ in the simulation.
2. Remember to keep all decisions secret until the moment when prices are made public.
3. Keep a record of events throughout.

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