

Memorandum



Subject Interview with [REDACTED]
[REDACTED]

Date June 4, 1996

60-2096-0002

To Frito-Lay Staff

From Jill Ptacek

b4, b7D

On June 3, I spoke with [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

distribution: RWF, DNK, HALE, PTACEK, ALEXANDER - EAG, SWEENEY, JONES,
CASE, CHRON, ARCHIVE

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Exempt under b7D

[REDACTED]

[REDACTED] ets. Their main reason for not introducing [REDACTED]
[REDACTED]

b7D

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Despite the fact that Keebler and Eagle have exited the market,
Frito-Lay continues to pay for shelf space. [REDACTED]

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[REDACTED]

[REDACTED]

[REDACTED]

Frito-Lay has a very strong product and a lot of brand

84,67D

awareness.

adequately advertise product market suc ssion

In 1985, the players in the chip market were basically Frito and a number of regionals such as Jay's and Golden Flake, etc. Frito had about 40 percent of the retail space. About that time, Eagle and Keebler entered the chip market, and Borden went on a buying binge to try to go national. Before that time, there had been little shelf buying going on, although some small amounts (\$80) may have been paid. Eagle and Keebler went after Frito's space. Frito-Lay aggressively matched their offers. In the end, the space didn't come from Frito, but from the regionals who couldn't offer the same sums of money. [redacted] stated that while Eagle and Keebler had good products and good shelf space, they poorly positioned their products. For example, Eagle was using Tony Randall and Jack Klugman to sell its youth-oriented chips, and Keebler's ads appealed more to women than to men, who are the predominant chip buyers. On the other hand, Borden's main problem

was the quality of their chips. When Eagle exited [REDACTED]
[REDACTED] but Frito-Lay bid on Eagle's space
in the [REDACTED] Frito
ended up getting most of the new shelf space that was available.

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[REDACTED]

[REDACTED]

[REDACTED] Potato chips are more costly to make than tortilla
chips, with smaller margins, [REDACTED]

[REDACTED]

Frito-Lay sometimes offers two bags for [REDACTED] that normally were
[REDACTED] a piece. [REDACTED] but they thought
Frito may not have been going below cost because of the additional
volume that Frito gets from having their products placed on endcaps
and other satellite displays. An endcap display plus a discount
increases the volume of sales by at least three times what a vendor
would receive if the vendor merely placed a sale sign on the
product on the gondola, and sometimes create up to 10-20 times more
in sales.

[REDACTED]

[REDACTED]

b7D

Grocery stores like Frito-Lay because they offer high retail prices. The stores have tight margins and so not only do they like Frito because of the higher profits, Frito's various payments increase their margins as well. [REDACTED]

[REDACTED]

[REDACTED] favorable [REDACTED]

[REDACTED] claimed that the best outcome for them would be to have slotting allowances go away altogether, which they realized may mean prohibiting grocery stores from receiving shelf payments. [REDACTED] stated that they have stores that they have not entered because the shelving allowances are higher than they can afford to pay. If they already have a position in a store, they have a slightly better chance of retaining that position. [REDACTED] said the results of the shelving practices has been to slow their level of geographic growth. The

fees for shelving space are higher on the east coast than the west coast.

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Frito also buys up the holiday promotional times from the grocery stores. Even though it would seem to be in the best interest of the store to permit two brands of chips to be on sale, the only reason [REDACTED] can think of to explain a store's unwillingness to offer their product for sale on the same date as Frito is that Frito-Lay has sought exclusivity. Their strategy now is to have their sales offered the week before the holiday.

[REDACTED] hasn't seen many instances of gondola exclusivity, just Frito-Lay buying up shelf space. [REDACTED] stated Frito-Lay tries to emphasize to grocery stores the volume that Frito sells, and then argues their shelf space should be commensurate with their sales volume. However, Frito includes in their volume sales presentation sales made from endcaps and satellites, thus making it look as though their volume levels are high enough to justify more space on the gondolas.

Because of the high prices for shelving space in [REDACTED]

b4, 7D

[REDACTED]

[REDACTED]

[REDACTED]

With respect to the issue of whether companies would try to enter the [redacted] market from outside that geographic area, [redacted] said there is a [redacted] mile radius in which they can ship from their plants. Chips are fragile and customers don't like broken chips -- going beyond [redacted] miles means increased breakage. Shipping beyond [redacted] miles also is cost prohibitive as shipping costs increase; chip bags take up a lot of volume with little weight and [redacted] pays by the truckload, not by the price per pound. Frito-lay has between 40 and 50 plants so they can easily cover the country.

b 7D

[redacted] didn't think Pringle's are in the same market as potato chips -- the people who shop for Pringle's are people who are shopping for a non-messy product. People who buy Pringle's don't often cross-over to regular chips and vice versa.

[redacted]

[redacted]

[redacted]

[redacted] Frito is very good at segmenting their products to

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different classes of purchasers, [redacted]

[redacted]

Thus far, [redacted] hasn't seen any price increases in the [redacted]

[redacted]

[redacted] While [redacted] stated they would be better off if there were no slotting fees, they conceded that as Frito-Lay already does a large volume of business and is a well-known brand, [redacted] may not be able to increase their market share significantly even if shelf fees were eliminated.

So/So # 11264