Memorandum

Subject	Interview [redacted]	Date	May 23, 1996
			60-2096-0002

To Frito Files From Neeli Ben-David

b4,7D

Nina Hale interviewed [redacted]

BACKGROUND

[redacted]

distribution: RWF, DNK, HALE, PTACEK, ALEXANDER - EAG, SWEENEY, JONES, BEN-DAVID, CASE, CHRON, ARCHIVE b4, 7D

[redacted]

DISTRIBUTION OUTLETS

Frito serviced large supermarket chains as well as convenience stores. [redacted] b4, b7D

TARGETING COMPETITORS

At Frito sales seminars, senior managers mentioned that Frito paid [redacted] could tell, Frito was successful in keeping Eagle out. Eagle had already ordered trucks to service the [redacted] when it discovered that Frito knocked them out.

FRITO'S COMPETITORS

Frito competed with Eagle in [redacted] Eagle was not in Walmart or Sams. Also, Frito competed with Golden Flake, Moore's, Lance, Wise, and Toms (these vendors had a minimal presence in the stores Frito stocked). [redacted] was told by its retailers that it could only sell [redacted]

[redacted] speculated that the reason for the exclusive contracts was so that Frito would not need to compete. It could then raise, lower, and promote in any way it wanted to. [redacted]

EXCLUSIVITY

Convenience stores would get bonus money and other incentives to stock Frito exclusively. Frito would offer the incentives at the beginning and then continuously pay the retailer as long as no other competition was allowed in the store. The money was for exclusivity, not for the amount of gross sales. However, retailers did receive extra money for sales beyond a certain percentage.

[redacted] b4, 7D

Frito had a special manager for arranging exclusive contracts. His name was [redacted] (7)(C)

Typically, [redacted] would tell a retailer that Frito would pay money for an exclusive contract. Once the retailer would

[redacted]

[redacted]. Under the terms of an exclusive contract, no competing products were sold on the shelf of the particular retailer. These types of exclusive contracts were renewed on a yearly basis. Many of them still exist. b7D

[redacted] first heard of exclusivity five years ago. He notes that once a store goes exclusive, there is no need for a trade salesman. Under an exclusive contract, Frito only needs someone to stock the shelves on a regular basis.

SHELF SPACE

Vendors would compete to get the best or prime shelf space. There are two types of shelf space. One type is the gondola which is the aisle with shelves on each side. The second type, incremental space, includes the endcaps and the bread tables, which are more prominent and more coveted by the vendors. [redacted] noted that Frito would not always use all of its shelf space. [redacted] speculated that the reason Frito would buy up the extra space was to keep out competitors who would otherwise be able to get into a particular store. b7D

Frito had standard vanilla contracts for a certain percentage of the stores' shelf space. [redacted] that Frito would want b 7D 50 to 65 percent of shelf space of any store regardless of the volume of sales the store was doing.

Twelve feet of space refers to 5 shelves each with 12 feet of space. The retailers' purchasing agent is in charge of setting up space allotment and deciding who gets what amount of gondola space and which vendors get the incremental space.

In a 50,000 square foot store, the typical gondola space for the salty snack foods would be one full aisle, or 60 to 65 square feet of space. Frito would want at least 30 to 40 feet of the space. In a 30,000 square foot store, typically 30,000 to 35,000 square feet of space would be used for salty snack foods.

Frito is big on service. It typically requires its salesmen to come in four to five times a week to keep the shelves full. In large volume stores, [redacted] a salesman would typically come in seven times a week. As a result, [redacted] pointed out, Frito did not need the extra space. He explains that the more space a vendor has, the less often it needs to refill it. If a vendor has less space, it constantly needs to have salesmen in the store stocking up.

When Frito could not fill all the shelves that it had bought, it would use "back gates" to make it look like there was more product than there actually was. Stores do not care if the shelves are full or not, according to [redacted] They are not making money off the product, although [redacted] concedes that there may be end of the year rebates which allow retailers some reimbursement for the volume of sales it makes. However, most of this money is made off selling shelf space. [redacted] says that retailers are more real estate agents than anything. In the end, Frito was paying for space plus a percentage of the growth experienced by the retailer.

Competitors are generally unable to get at the prime incremental space location such as the endcaps and bread tables, because there are a limited number of these and they already have been given to Frito. [redacted] could not recall specific Frito strategy lingo regarding exclusivity and shelf space. However, he said he would get back to us on that.

DISTRIBUTION

Typically, a salesman or distributor would prefer to stock grocery stores rather than smaller stores and convenience stores. This is because grocery stores have more volume and so the distributor or salesman gets more commission for the same amount of work.

If a store is exclusive, the volume is higher, so the salesman gets more commission. However, he also has to stock more frequently and he has to be more careful to make the product look good (Since Frito has paid a great deal for the space and wants to use it to its best advantage). [redacted] He also mentioned a strategy used by Frito to buy up all the quality potatoes so that none were left for the other competitors.

[redacted]

[redacted]

So/So # 10997