Memorandum

Subject Telephone Interview with [redacted]	Date June 11, 1996 60-2096-0002

To Frito Lay File

From Nina Hale

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On today's date, Jill Ptacek and I interviewed by telephone

[redacted]

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

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[redacted]

Before we could get into the issue of shelf space and other problems that firms [redacted] are encountering with Frito Lay, [redacted] wanted to tell us about a problem that he has experienced with Frito Lay in the supply of potatoes. Apparently, potatoes are grown [redacted] He

described this as a commodity type business where it is important for him and others to get fresh potatoes. One can buy potatoes either directly from the farmers or from brokers. [redacted] that Frito Lay does not use brokers, but instead goes directly to the farmers and buys up the field paying whatever the market price is at that point in time. The farmer, apparently, thinks that he is getting a good deal, but according [redacted] this can create a problem both for the farmer and for competing potato chip companies. Apparently, if there is a freeze, which seems to happen every year, the farmers will try to slow down the growing of the potatoes producing a shortage. Under these conditions, with Frito having bought up all the potatoes at the field level, Frito competitors who buy through brokers are faced with an inability to buy potatoes. On the other hand, sometimes there are too many potatoes, at which point Frito then rejects the potatoes that it bought from the farmer at the field level and leaves the farmer to try and sell those potatoes to the competition at a lower price. This is bad for the farmers, but not necessarily bad for the competition who are able to get the potatoes at a lower price then they might otherwise have done.

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We asked [redacted] didn't he simply contract with the farmers in order to ensure that he had the supply of potatoes that he needs for his production. He said that generally he and others like him do not want to contract with farmers because those contracts are entered into six to nine months in advance of the crop. And, if there is a glut of potatoes, he can get them much cheaper from the brokers.

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recognition of the fact that grocery stores have a window of delivery time usually between 6:00 in the morning and 11:00 in the morning, [redacted] up with the idea of splitting the labor responsibilities on delivery of a product. Therefore, they have designated drivers whose only responsibility it is to deliver a product to the various accounts. Another person who is referred to as the team leader uses his or her own vehicle, rather than the van carrying the product, to get to the various accounts at which the driver has dropped off the product. That person, *i.e.*,

the team leader, services the account. That means maintains the schematics, pulls the stale product, talks to the decision-maker at the store, and generally makes sure that the relationship is maintained. The result of this arrangement is that the driver can deliver product to many more stores during the window period, while the service guy is able to do his bit in the store over the entire day. Apparently, this is a highly costly change to make because they have not hired sufficient number of people to use all the trucks that were previously being used by a driver with dual responsibilities. Part of the problem there is [redacted] does not have sufficient accounts to justify hiring the additional people to constitute the team effort.

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According to both [redacted] the biggest problem for [redacted] is that Frito Lay is, in addition to having the vast majority of the shelf space in the supermarket chains, getting the bulk of the display or secondary space in the store. This display space means "end caps", bread tables and store bargain racks. Apparently, the calculation for purposes of how much shelf space will be allotted to the various snack food suppliers is based on volume of sales. The more display space a company has, the higher the volume of sales and therefore the

division of "sales by feet" is larger for those with display space.

In addition, Frito Lay has various methods of encouraging the retailers to promote its products more than that of their competitors. [redacted] b 7D

[redacted] If [redacted] could get the display space, then it could take the shelf space that it now divided by sales and [redacted] numbers would look better. But because Frito Lay always gets the display space, [redacted] shelf space does not grow. Theoretically, after the contest ends, [redacted] could try to get some of the display space, but in reality, they don't get it. The reason for that is that Frito has already locked it up in some other way.

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We asked [redacted] business mix. In the [redacted]

[redacted] wanted to make clear to us that, in his opinion, Frito was very good at what they do. Frito understands its business and makes use of its understanding. On the other hand, he felt that Eagle had its problems. He said that Eagle did not go to market very well. Eagle threw money at a brand, but did not really understand how snacks are sold. At the store level, execution makes or breaks you. Apparently, Eagle did not go after the "UDS" where there is as much money to be made as in supermarket chains.

[redacted] had experience with Eagle in not only [redacted] but in [redacted] He said that [redacted] b7D

[redacted]

With regard to shelf space, [redacted] not paying for it. They have had experience with a retailer asking [redacted] pay to get into a chain, [redacted] refused. Apparently, the request was based on the amount that Frito was paying to get into the same chain and the amount was [redacted] faces significant pressure to maintain its space. Frito Lay uses a category manager to tell the store buyer that it ought not to carry any more than one "number two" player. So Frito will tell the buyer that [redacted] are basically the same and that it doesn't make sense to carry both of them. This pits [redacted] against one another for that No. 2 slot. [redacted]

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shelf [redacted]

We talked a little about the kind of advertising and promotions [redacted] in. According to [redacted] They do conduct in-store demonstrations and offer discounts to the retailers that are to be passed along to the consumer, but do no media or print advertising.

[redacted] is losing profits because its volume has dropped, although recently it has stabilized. According to [redacted] growth is today [redacted] of what its maximum growth period was in [redacted] A number of other companies have exited the market in the last five to six years. These are [redacted]

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We asked about the effect on retail prices seen since Eagle left the market. According to both [redacted] retail prices have gone up, although there was some question as to whether or not the price had already increased several years ago when the bag size went down, but the price stayed the same. There are still some discounts being put into place by Frito, but they see the increase in prices as an opportunity for those firms that are still in the market.

[redacted] an average of about [redacted] in the chain supermarkets. They are always trying to get more, but the stores pull out the data and say that [redacted] is not selling enough to get more space. According to [redacted] paying for shelf space is not the issue, but he is willing to bet that because [redacted] the stores want to have [redacted] on the shelf. His view is that retailers want a "number two" player. As to what they might do to make sure that there is a "number two" player, relative to Frito, remains to be seen. He recognizes that retailers have a

bottom line to consider and that they may take the short-term profits over the long-term possibilities. b7D

Basically, the shelf space that [redacted] has is adequate for its needs, but what he really wants is more display space, which then would permit [redacted] increase its sales and therefore increase the amount of shelf space it is due. They believe that display space is key. In the average store, there are approximately eight display spaces which may include end caps, bread tables and weekenders. They say they just can't get what they need of the display space. That is not to say, however, that they don't get any of it, they just don't get as much as they want.

According to [redacted] Frito does a great job at keeping the store manager informed of what's going on. The Frito salespeople have hand-held computers and purchase the infoscan data and are able to prepare reports that keep the store buyer up to date.

One [redacted] strategies is to increase its penetration of the UDS segment of the market. They believe that this will be successful because Frito has a history of being dictatorial with the smaller stores [redacted] thinks that these smaller stores will be glad to see a new player. There is a problem with these smaller stores, which is that as a limited line company, it is

cost prohibitive for [redacted] make many of the stops. Here, Frito has an enormous advantage being a full-line company and is therefore able to make economical drops. For this reason, [redacted] is looking to expand its product line by distributing the products of other companies and thereby increasing its drops to become more economical.

We asked [redacted] about their upcoming meeting with a retailer with whom they already have an account. This will be a meeting in which [redacted] promote the fact that [redacted] this alliance with the former Eagle distribution network in the [redacted] Their approach will be to find out from the retailer exactly what it would like to see from [redacted] terms of promotions and margins. Basically, [redacted] wants the answer to the question of [redacted] Once they have this information, [redacted] will go back to their offices and come up with a program that seeks to meet the needs of the retailer at which point, they will meet with the retailer again and agree to some promotion dates and fill out some forms.

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So/So # 11477