Memorandum

Subject Telephone Interview of [redacted]	Date June 3, 1996 60-2096-0002

To Frito-Lay File

From Nina Hale NH

b7D

[redacted]

At Frito there are two types of sales representatives. The first type is the "route salesperson", who covers convenience stores, small volume supermarkets and mass merchandisers. A route salesman generally handles about 25 to 40 accounts. The second type is an account salesman, whose accounts are mostly the chain

distribution: RWF, DNK, HALE, PTACEK, ALEXANDER - EAG, SWEENEY, JONES, BEN-DAVID, ~~CASE~~, CHRON, ARCHIVE supermarkets and will be responsible for servicing approximately four to six stores. The chain supermarkets are those which can average about [redacted] a week in sales. In contrast, the convenience stores, small volume supermarkets, and mass merchandisers of the route salesman have much less sales volume. For example, a convenience store can average as little as [redacted] a week in sales.

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The compensation structure for the two types of sales jobs are as follows: for the route sales job, the salesman is guaranteed [redacted] For the account salesman, the guaranteed salary of [redacted] Despite the difference in percentages for commissions, the pay turns out to be equal because of the volume difference of account sales. As a matter of fact, according to [redacted] one puts in the same amount of time in hours in both jobs, although not necessarily the same number of days. According to [redacted] the account sales need to be serviced much more frequently than do the route sales where the volume moves less quickly.

[redacted]

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[redacted] had mentioned a number of times something called contract maintenance agreements, otherwise known as CMA's. These are contracts that Frito enters into with chain convenience stores and chain supermarkets regarding the space allocation for Frito products, how many promotions there will be and what the rebates will be on sales of Frito products. These CMAs are not offered to all customers, although they are available to all customers. This, along with many other references by [redacted] go to the issue of Robinson-Patman Act compliance. Everybody, meaning all customers, is given the opportunity to take advantage of the programs offered under the CMAs, but they are not broadcast to all customers. Such factors as the traffic in the store, and the amount of volume the store moves and its profile are obviously factors in whether or not Frito wants to offer the kinds of programs that involve payment to the store for having Frito products on the shelf. The practice at Frito seems to be to focus on the chain stores where one might expect that there is more business and higher profile.

[redacted] b4, b7D

We asked [redacted] about the existence of exclusive contracts between Frito and any other retail outlets. [redacted]

The way these contracts worked was to give the retail outlet in exchange for exclusivity, a percentage rebate on sales with certain hurdles. For example, at the first of the year, a retail outlet would be paid an up-front sum based on the previous year's sales. That rebate would be in the neighborhood of [redacted] Then, trimesterly, Frito would grant rebates based on current sales with growth hurdles, i.e., the retail outlet would increase sales over last year's by a certain percentage and then get a rebate based on the incremental increase. For example, if a store grew its sales from [redacted] over what they had been the year before, the store would get a [redacted] rebate on those sales. Similarly, if a store grew the sales by [redacted] percent, the store might get a rebate of [redacted] on those sales. However, if there was no growth, there was no rebate. b4,b7D

[redacted]

We asked [redacted] if there were stores that had agreed to be exclusive with Frito-Lay and nonetheless carried other competitors' products. He said that there were instances in which that happened. He said that it was up to the store to decide whether or not going exclusively with Frito was in the store's best interest. Frito would obviously say that we expect to be the only supplier, but if the store did bring in another supplier, Frito would do nothing more than remind the store that it would not make its numbers, i.e., they would not sell as many Frito products if there were a competing supplier on the shelf, and therefore not meet the growth incentives and hence not make as much profit. According to [redacted] this was the biggest selling point on these kinds of contracts. The message to the retail outlet was that if you sell Frito-Lay, you will make money just because there are Frito products on your shelf, and then you add the rebates to that and competitors cannot beat the profit margins that Frito permits retailers.

Frito-Lay has a base cost for a certain size of bag as [redacted] as compared to its [redacted] Under these circumstances, Frito would then be saying to the retail outlet, if I give you this price, then I would expect to see that [redacted] Stores do not have too much difficulty doing that. The CMAs tended to be negotiated on an annual basis.

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Another program that Frito had involved rebates based on sales, but a certain percentage of the rebate would be put into an account for the outlet to use as it saw fit for promotionals or giveaways. These were called "flex dollars" that went into the account and were generally [redacted] of sales.

[redacted] 7D

[redacted]

We asked [redacted] what the convenience stores got out of these exclusive arrangements aside from the rebate money. He said that they limit the number of vendors so that store personal have fewer people to deal with that would require them to leave the cash register. He reiterated a point that we had heard in earlier interviews, which is that convenience stores are not staffed with usually more than one or two people, and having to deal with vendors who are restocking take those people away from the cash register and from the customers. In addition, having a single vendor reduces the accounting work required of the retail outlet and therefore reduces overhead. And finally, by having only one salty snack food supplier, the salty snack food category of the store is easier to manage. [redacted] b5, 7D

[redacted] that the grocery stores tend not to go exclusive with Frito because variety is an important factor of their ability to compete with other grocery stores. Mass merchandisers, on the other hand, are open to exclusivity because they are not as concerned about variety and they hope to get one brand at a lower price. Frito did not give the mass merchandisers any lower price than it did any of its other customers. Instead, the mass merchandisers could get the rebates to apply back to the sales price, to bring it down to a level that made them feel that they were getting a suitable discount. [redacted] and he thought that this was true on a nationwide basis. However, he said when the service flipped, some stores would take on other suppliers and in essence, violate the terms of the CMA but that Frito did not take any action to enforce the CMA term. Instead, as noted above, the Frito sales rep would get in the store and remind the store about how the rebate structure worked and encouraged the retail outlet to return to an exclusive supply position.

According to [redacted] there were no specific guidelines when it came to shelf space. The amount of shelf space was negotiated on a store-by-store basis, with Frito asking for a certain percentage of the space. [redacted] said that his job was not simply to promote off the gondola, but also to get the store to set up secondary displays such as end caps and bread tables. Therefore, the CMA would include the following kinds of provisions: a certain amount of gondola space, first position end cap for single servings, one secondary full-revenue location in the store, one secondary promotional location in the store, and 52 weeks of promotions.

[redacted] b5, 7D

[redacted] when that provision is in the CMA, it guarantees Frito a promotional effort in the store every week of the year. Most convenience stores run promotionals a month at a time. Supermarkets run them on a two-week basis. Supermarkets can get the 52-week promotions going because they are more organized about promotionals than are the convenience stores. These promotions do not require that Frito be the only chip that is promoted during that time period.

The profit goals for salespeople were based on a general goal of [redacted] growth of total sales over the previous year. However, the salespeople had to watch out for the promotional spending that they had done during the previous year and the amount of stales or return of merchandise that had occurred over the previous year. These costs are backed out of the sales growth figures, so depending on how high they are, a salesman may not meet the goal.

We asked him about price increases for Frito products. According to [redacted] there were as many increases as there were decreases. He recalled that Frito tried to increase the wholesale price of Lays from [redacted] to [redacted] and [redacted] to $[redacted] but found that it didn't work and they went back down to [redacted] and [redacted] for suggested retail. He said that they regularly tried to increase the suggested retail price, but it really depended on the product. For example, retail outlets could get a higher retail price for Dorito's and Frito's, but not for the Lay's.

Each brand within the Frito product line has a department at headquarters which is run like an independent business within the company. Each has a certain budget, giving salespeople different goals to move sales of one line over another. However, despite the independent business units for each product line, when they go for exclusivity it is across-the-board as a salty snack supplier, not product by product. Likewise, the salespeople were to sell the whole product line if they could. However, retail outlets could pick and choose among the Frito brands although of course they were reminded that they would not get all the opportunities to make profit if they didn't go with the entire product line.

According to [redacted] Frito, unlike its competitors, has the best ratio of "full-revenue volume versus promoted volume." Stores, of course, liked the full-revenue volume sales. According to Frito's analysis, [redacted] of its sales are full-revenue and [redacted] of its sales are promoted revenue. [redacted] said this is a very strong selling point with the retail outlets. b4, b7D

We asked [redacted] about Frito-Lay's market share and [redacted]

He believed that the number had gone up considerably [redacted]

[redacted] He did say that these numbers were not necessarily accurate because there are no official numbers on convenience stores due to the fact that they are not automated and therefore do not provide the information to the national data firms like IRI and Nielsen, to which the supermarkets do provide this data.

The difference between convenience stores and grocery stores are as follows from the standpoint of [redacted] First of all, there are the service requirements, which for a convenience store are much higher than a grocery store. Secondly, the promotions tend to differ because some products don't sell as well in convenience stores as they do in the grocery stores. For example, Dorito's don't sell as well as potato chips in a convenience store and therefore the promotions would be different in the convenience store than they would be in a supermarket. Also, even though salty snack foods are impulse purchases, convenience stores are seem to be the place for more impulse buying than grocery stores. A supermarket might need to be serviced once every day, while a convenience store would need to be, at the most, serviced three times a week.

According to [redacted] Frito has a corporate goal of increasing its market share by [redacted] to [redacted] every year. Therefore, if Frito is at [redacted]

[redacted] was quite adamant in his view that Frito, due to its brand name, was able to sell chips. In addition, he felt strongly that the quality was better than any of its competitors with the possible exception of Eagle potato chips which were pretty good. Finally, he felt that Frito had far better service than did its competitors.

Getting back to the issue of shelf space, [redacted] said that they always negotiated for shelf space with the retail outlets, but they did not pay a specific fee for shelf space and instead built it into the CMAs through rebates. For example, the pitch to the store would be "if you increase Frito-Lay's space by two feet based on current volume, you should increase profit by ____ percent through margin and rebates." Basically, what the salesmen would be saying to the retail outlet is look how much our square footage produces now, and it's more than our competitors will produce, so give us more space and that will continue. b7D

We asked [redacted] if he was familiar with the concept of category managers. He said he was, although he felt that they were part of an infrequently used effort by Frito-Lay. [redacted] He said that Frito-Lay does not ever meet its market share by the amount of gondola space it has been allotted in the store. For example "if Frito-Lay has 50 percent market share, it wouldn't necessarily have 50 percent of the space on the gondola alone. It would have other space in the store, so-called secondary space, such as end caps and display tables, that would generate the sales to give it that market share."

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We asked him about the competition from Eagle and whether or not Frito's contracts, [redacted] did mention Eagle. He said, "no, the contracts themselves, do not mention Eagle either." However, he said there was an awareness of Eagle as a primary competitor. There were no specific programs designed to thwart Eagle that he knew of, but Frito-Lay would basically do anything to match Eagle, and if need be, beat them to make a competitive response.

[redacted]

So/So # 11170