Memorandum

Subject Telephone Interview with [redacted]	Date May 17, 1996

To Files | From William P. Jones

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On May 2, 1996, Nina Hale, Jill Ptacek, and I spoke t[redacted]

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[redacted] Each of these markets is clearly broken down by segment to show market characteristics, and [redacted] says, these tends and figures probably repeated repeat in city/state/zone markets around the country, should we wish to examine that sort of information. [redacted] says that Frito-Lay can influence these surveys by being the primary user of the survey, manipulating the numbers and falsifying information simply because it's in the market in such a big way and can do things other people don't see or duplicate. These market surveys are like the Nielsen or the IRI which show, by region and product, what items are providing a market share for given companies and related extrapolations.

Shelf Space Management

[redacted] is commonly charged a processing fee for any new products that he places in food chain store shelves, partly because the chain has to computerize the new material in several ways, and there is a cost factor in that. If [redacted] controls four feet of shelf space section, the new product will go there and not to some expanded space that is provided, but an old space. However, if Frito wants more space, it is often seen that [redacted] Such ante-up battles start in that manner until resolved with a high dollar value handed over to the grocer. It is called, "pay to stay."

[redacted] Some grocers will charge for additional shelf space deals, but will not charge for basic space. This is sometimes the experience unless Frito enters the picture and offers large amounts of money, or the store chain is in serious financial shape, say, with a mortgage problem, or where a need for a reserve cash fund is expressed by the grocer, and money is needed and being looked for, with shelf space an obvious candidate for a cash rescue. Also, at times, a chain's private label needs space and the chain will try to [redacted] so that its own products will have space and consequent sales, providing the chain a higher profit margin and return on operations.

__Frito's Marketing Strategies__

[redacted] states Frito often tries to gain exclusive rights in smaller (square footage) stores. It also tries to convince regional grocery chains of its value when exclusively sold, and recently made great efforts to pick up the shelf space which Eagle's demise presented to the survivor population of snack food manufacturers. Frito will pick up as much as it can and argue that the grocer's should drop the other companies totally since they did not provide the sales which Frito did when it picked up the Eagle space and demonstrated great sales energy. [redacted] to "pay to stay" in certain shelf space at some retailers, mainly to keep what has been their shelf space, not to absorb Eagle's lost space, or other display opportunities. The normal fee structure for shelf spaces allowances or slotting fee allowances is on an annual basis, according to [redacted]

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[redacted] of [redacted] and sometimes the result is that it is dumped thrown out totally;,other times it's allowed to stay by a given grocery and pay less, if it handles the problem with charisma and a poker hand [redacted]

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Frito's Marketing Promotion Strategy Examples

[redacted] Frito does the following things to ensure that it will take control of a given retail situation: 1. It locks up major holidays with special off-shelf displays, "rolos," and begins "push" campaigns to help certain FL products sell. Its holiday strategy works well because Frito looks ahead and pays ahead, and gives the grocer advance compensation, and the ability to plan for holidays and thereby maximize sales and further incentives. Frito also sets up "satellite" selling spaces outside the normal snacks gondola. It justifies the extra racks and freestanding displays by calculating for the chain extra sales per foot in those displays, and Frito argues its competitors be charged at least as much for shelf space as it will pay for the super-productive space or be forced out. Then Frito may pay a higher amount for the empty space. This creates a cascading effect Frito uses to justify it s takeover ploy. Frito's expression for this is "we'll grow your category." This means volumes create more volumes added to the incentive rebates they will pay to the retailer. Frito can then supply greater rebate levels for more space as more space is tacked on to existing space, a pattern that threatens all its competitors, and recruits the retailer with a very difficult-to-resist package. [redacted] have hearsay that indicates Frito's rebate levels have reached [redacted] percent of sales. Frito attaches conditions to its deals.

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The Mackenzie report of 1984 was the beginning of the suggestion that salty snack foods be given much more space in grocery outlets. Frito Lay used this report to form a strategy that emphasizes add-on selling space like end-caps and off-shelf opportunities to increase product visibility and sales, at a rate that triples and quadruples Gondola sales. This is a "huge advantage" because the product has so many more chances to be seen and selected by the buyer as he circulates in a store.

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Future Trends in Snack Food Marketing

[redacted] insists there are really no new markets for a bumped product and that being bumped means you are simply not able to recoup and keep your previous sales level. One strategy that might work in the future for competitors oppressed by Frito is to suggest to regional snacks manufacturers that they band together and create certain efficiencies in the production and selling ends of the market. It is possible that as niche foods, the smaller competitors can hang on until Frito is dealt with somehow. He states examples of the many niche products constantly coming on line which the public accepts, such as fat-free cheese crunches and black bean tortilla chips. b4, 7D

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[redacted] is distressed about Frito's national marketing strategy which disallows other snack companies room to live and grow. In short, [redacted] says he is more than willing to live with other competitors, but that the highly disproportionate amount of money Frito is putting into the market, its sales at cost are below cost to gain market share and drive others out of business, plus its highly efficient distribution and accounting system [redacted] gloomy about their future. He also worries about Frito's plans concerning the raw vegetable supply to the snack food manufacturing market.

It's possible that Eagle also took shelf space away from [redacted] during its time in the market, but [redacted] relationship with Eagle was far different from how it must cope with Frito Lay. [redacted] is no disadvantage, and prefers it to Frito's giant "economy of scale" system.

[redacted]

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Final Observation

[redacted] states that Frito's has emptied the western part of the United States of competitors, and south and west of St. Louis, the snack makers have exited, leaving Frito free to boost prices and walk away from retailer slotting fees, etc.; is the eastern U.S. next?

So/So #10877