Memorandum

Subject Interview with [redacted]	Date May 9, 1996 60-2096-0002

To Frito Lay File

From Neeli Ben-David

b4, 7D

Background:

[redacted]

Product:

[redacted]

[redacted]

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

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Exempt under b4, b7D

[redacted]

[redacted] IRI sets up regions and will offer market share information (including each company's market share) regarding each region. The information comes from the scanning data of individual supermarkets in each particular region. b 7D

[redacted]

[redacted] b(4)

[redacted]

Promotion:

[redacted] Eagle came in the late 1980's, and as more big players entered the market, they began to fight for shelf space. Each week, the

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[redacted]

companies would have to create promotions in order to compete. None of the companies were able to sell as many products at their regular prices they used to. In addition, the entry of mass merchandisers was to the disadvantage of smaller companies who wanted to sell their products at regular prices rather than at promotional prices.

In the last seven to eight years [redacted] 7D

Shelf Space:

With the regard of problem of buying space in chain stores and supermarkets. [redacted] explained that originally supermarkets offered "free fills" which permitted a company to fill shelf space for free the first time. The company would respond by giving the grocery free products, after which the company would then keep the shelf space and pay a fee. This continued until mid-1980's, at which time the chains decided that they wanted some minimum fee and did not want to give away the free shelf space. [redacted]

[redacted] notes that retailers have leverage in this situation. In order to bargain with the retailers, the producer needs to have a significant market share. For example, in order to justify a certain number of feet of space, the company would have to show a corresponding market share and an ability to sell out the product stocked in that shelf. This disadvantages producers who wish to open and sell their goods in new areas. Since they do not have yet have a market share, they might have to bargain with the supermarket for shelf space, perhaps by paying a higher price.

[redacted] However, recently Frito-Lay has said that it will buy any available shelf space. [redacted] suspects that they don't need it but rather are using it to prevent other competitors from occupying that space. Frito-Lay will often outspend competitors to get the space in order to buy the others out of the account. However, [redacted] notes that this understandably competitive behavior and that Frito Lay may be able to justify it by explaining that it need the additional space to display its diverse line of products.

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Two possible justifications for buying extra space would be: Increased market share--if producers shows its product is constantly being turned over and the shelf is often empty, it might claim that it needs additional space--and the need to diversify a product line--a producer might need additional space in order to display all the different types of salty foods that it is offering. In order to use the first justification, that is in order to show an increased market share to the retailer to convince the retailer to allow it to buy additional shelf space, companies have been known to lower their price below what the other competitors can produce the product for, to increase the volume of sales.

[redacted] If the retailer is in need of money, he may be driven to sell the space to whoever bids the highest price for it.

This is a deviation from the normal retailer mode of deciding how to allocate shelf space based on the market share.

The exit of Keebler and Eagle have opened more shelf space up. Frito bought a great deal of this space. [redacted] admits that it may not have bought the additional space even if it was economically feasible because it couldn't justify it. Unless their market share is high enough and they're turning over good as a fast enough rate, it doesn't make sense to buy additional shelf space and allow the product to go to get spoiled.

Exclusivity:

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There is also a issue of exclusivity. There are two problems with exclusivity in this situation. First is the limited exclusivity problem. Frito-Lay has engaged in contracts with supermarkets to sell a certain bag of potato chips at a certain price. The contract stipulates that no other brand can sell that product at that price. [redacted]

In order to persuade the retailer to engage in exclusive contacts, Frito offered significant rebates at the end of the year to make up for any lost profit. In addition, there is a certain amount of spending done by the producer for the benefit of the retailer, which is referred to as "spend back" money. This is money spent on retailer programs such as co-op programs, advertising that the retailer wishes to engage in seminars, and contests. "Spend back" is another way of reimbursing the retailer for engaging in the exclusivity contracts. While all producers engage in some degree of spend back [redacted] Frito is interested in engaging in much more lucrative spend back activity.

Frito has been engaging in limited exclusivity contracts with the following supermarkets: Uni-Mart, Dairy Mart, and United Dairy Farmers of Columbus.

[redacted] b5

The second type of exclusivity problem is total exclusivity. [redacted] b7D

When asked why Frito's would engage in this type of exclusive dealing contract, [redacted] said it made sense if Frito's intent was to get all of the pie rather than just a piece of it, but did not make sense economically. Since Frito is already selling its product and occupies a large market share it will not be making that much more profit under a exclusivity contract [redacted] b5

[redacted] speculates that Eagle went out of business because it only offered large quantity packages of its product. Most firms cannot survive on promotions alone. They require regular price sales in order to maintain consistent revenue to cover overhead.

Profit Margin:

[redacted] notes that there's a larger profit margin with small bags. However, since most small bags can not be sold at regular price, most of the revenue doesn't come from the small bags of snacks. Again [redacted] pointed out that a company needs a regular price in order to bring in consistent revenue.

b 7D

Frito's Intent:

[redacted] has heard comments made [redacted] regarding the informal Frito motto: To inflict permanent damage on the competition. [redacted]

So/So doc #10576