Memorandum

Subject Interview with [redacted]	Date June 4, 1996 60-2096-0002

To Frito File

From Neeli Ben-David

b7D

Nina Hale and Jill Ptacek spoke with [redacted]

[redacted]

distribution: RWF, DNK, HALE, PTACEK, ALEXANDER - EAG, SWEENEY, JONES, BEN-DAVID, ~~CASE~~, CHRON, ARCHIVE [redacted] 4, b7D

Space allocation is based on consumer demand and the ability to remain in stock during the peak periods. Salty snack foods account for approximately [redacted] square foot store, and [redacted] feet in an [redacted] square foot store.

[redacted] determines space allocation based on "shelf sets," which are physical plans describing how much space goes to each individual product. This plan varies based on geography. The allocation is based on consumer shopping behavior (whereas it used to be based on data provided by the manufacturers). Products are arranged by product not the manufacturer ("category sets" rather than "manufacturer sets"). The arrangement is made to the store's (rather than the manufacturer's) best advantage. Sharing marketing information with manufacturers is now strictly forbidden.

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Manufacturers grant allowances as both a percentage of sales and as a flat fee. Allowances provide an incentive for inclusion in the store's coupon book, displays and so on [redacted] described the process of offering allowances and store promotions as a cooperative effort between retailer and manufacturer. These flat allowances could be construed as payments for shelf space. [redacted] admitted that at least some of the [redacted] stores charged for shelf space. However, most manufacturers build an accrual fund which retailers can use against products or a group of products ("market development fund"). Agreements with manufacturers include situations in which a manufacturer will pay a certain amount if the retailer agrees to the manufacturer's conditions. For example, the manufacturer may say: For this fee, we don't want you to have a competing brand of the same commodity within the same division.

Contracts typically last for [redacted] days. In a contract, a manufacturer will offer X amount for Y promotion. The retailer chooses the best offer. The options may include a temporary exclusivity arrangement, for example, one in which the retailer agrees not to advertise anyone else for the promotional period. b7D

[redacted] says that they will not allocate shelf space in the [redacted] marketing agreements. In fact, [redacted] asserts that [redacted] does not have any contracts for shelf space allocation. [redacted] line managers typically reshuffle shelves every year or year and a half.

When a retailer is determining whether to bring on a new product, [redacted] expects the manufacturer to offer a number of incentives for the retailer to adopt the new product. The retailer determines whether the products has the ability to incrementally grow sales and profit within each product. Usually, if the retailer is convinced, the manufacturer will get a five to six month grace period to prove itself.

Some locations carried Eagle when it was still in operation. However, once it was taken off the market, [redacted] had no corporate policy regarding how to deal with the extra shelf space available. The product was removed from the market when [redacted] was in the middle of a major re-set. As a result, it was able to re-allocate Eagle's shelf space using the usual analysis.

So/So # 11173