Memorandum

Subject Telephone Interview with [redacted]

Date August 27, 1996

60-2096-0002

To Files

From William P. Jones b 7D

Today, Nina Hale spoke with [redacted]

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[redacted]

b4, b7D

[redacted]

[redacted] says that [redacted] shelf space allocation is done "by category." Elements which determine how the categories are allocated space are the individual store's square footage, its site and age and its geographical location. The salty snack category items are given a standard gondola linear footage award of about [redacted] linear feet in a normal [redacted] based on store size particulars. In addition, [redacted] produces a planigram which takes into account local needs and consumer demand in terms variation in the snack line-up presented. [redacted] said that [redacted] percent of [redacted] shelf space for snacks is brand-identical and that these stores have vendor variations when localized tastes dictate exclusive products for certain stores. In his marketing zones, there are regional snack vendors who are "localized favorites," and [redacted] work group makes its program flexible on the vendor selection matter, calling it "an internal process driven by a lot of sales data," which serves to justify inclusion of small regional manufacturers. The following aspects are calculated into the decision to add prospective manufacturers to the shelves: past sales results, gross profitability analysis, affected "segments" (which [redacted] later addresses in this memo) of product by each brand, brand market share and a factor that carries the acronym GMROI, meaning "gross margin return on investment;" and finally, consumer trends, which [redacted] studies and plans to exploit to garner maximum sales on burgeoning new/popular snack products.

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[redacted] added that he and his executive group worked to define [redacted] objectives and to set out tactics and strategies to enable the chain to meet its goals through promotions, pricing and product placement. To accomplish this [redacted] has "analysts" who [redacted] defined as internal [redacted] employees tasked to determine how best to meet category and department planning needs. The [redacted] purchases IRI and Neilsen computer data to track sales trends and developments to help shape its objectives. The [redacted] analysts are joined by manufacturer-paid vendor analysts who look at store arrangement and assist in creating business opportunities throughout the chain, suggesting and implementing promotional activity and conducting consumer panels and surveys to fine-tune Jewel's [redacted] strategic arrangements.

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Each year [redacted] sets out this strategic agenda that takes into account previous sales results and all key market factors; the scheme unfolds to involve shelf placement and category allocation. It is revised on a "as needed basis" when a new product enters a category or similar developments spur useful modifications. One element requiring the realignment of the store's strategy is when a product, such as one brand's chip segment of a salty snack line, is not living up to sales expectations agreed upon at the beginning of the year between vendor and [redacted]

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How [redacted] Arranges its Salty Snack Shelves

[redacted] explained to us that [redacted] has a shelf placement "set," which tracks its shelf set-up by product group and not by brand, e.g., all potato chips are displayed together. The set is based on a "sales to space ratio," closely reflecting consumer demand, product profitability calculations, market share numbers, [redacted] its GMROI data and additional market research, which might indicate which brands are driving profitability and should be afforded preferential spacing options. By example, [redacted]

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[redacted] emphasized that [redacted] is the sole arbiter of who is given salty snack placement on its displays and shelves and that if it desires, any vendor or can be removed at its pleasure. Chain policy states that there will be no shelf space slotting fees paid by any manufacturer. [redacted] rather altruistic attitude on slotting and related fees is that such practices are "not a practical or equitable expenditure" by the vendor and that mutual objectives are better reached through promotional funding and "resource management." [redacted] strategic leanings are more towards traditional promotional money outlays and tactical deployment and, he added, slotting fees also take the consumer "out of the loop," in the sense of shopper input and product preference. He seemed to imply that the [redacted] refuses to accept shelf fees. [redacted] stressed that, instead, "product support" practices by the vendor are the means by which both parties (plus the consumer) are best served. That latter concept aids the alignment of everyone's resources toward meeting the specifics outlined in [redacted] marketing programs in which the chain feels its needs are vested. b4, b7D

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Pre-pricing on Salty Snack Bags

[redacted] expressed his dislike of "bell-pricing" or pre-stamped suggested regular prices placed on some manufacturer's incoming bags because this restricts the store's flexibility in pricing its retail goods. [redacted] desires to price its products according to its own wishes an d this practice is "hard to accept." It limits the [redacted] ability to promote discount sales and the store is then forced to use resources to place a "shelf ticket" on the shelf itself that reflects for the shopper a discount from the marked bag price. Resorting to this display sign is considered an unnecessary annoyance. [redacted] did agree that if [redacted] wanted to sell the bag at a higher price than that stamped, it would look "foolish to shoppers," and just wouldn't happen. In any case, [redacted] prefers to dictate the retail price of its salty snacks.

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[redacted]

[redacted] Nina Hale asked whether, hypothetically, a potential West Coast salty snack manufacturer applied to be a candidate for inclusion in the [redacted] responded that he would need to have extensive information concerning the perspective vendor. For instance, he would ask the vendor about its West Coast market share and other characteristics, plus information concerning its product differentiation, its potential for incremental growth of the category at [redacted] versus mere cannibalization of current vendors' share, with simple trading of dollars from old vendor to new. [redacted] would also want to know about the potential vendor's marketing programs, its own advertising budget and scope, its "consumer support" operations within [redacted] were it to come in, and the "FSI's," which was not defined. Smaller details would also be covered, such as the snack maker's expected frequency of re-stocking visits, its transport capability and its cash payment for the advancement of its product at [redacted] Many factors would be weighed before a new vendor could find placement at [redacted]

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[redacted] **Marketing Strategies**

[redacted] stated that [redacted] markets within the four segments of the salty snack category as previously named. He added that the chain promotes this category by "rotating across brands" in its promotional campaigns to the public. Sometimes "demo" programs are initiated, whereby shoppers are given a sample of promoted product to encourage future sales.

When discussing what a vendor will do to assist his marketing schemes, [redacted] says that there is never discussion of vendor margins, nor questions to the vendor to ascertain private information like this. Instead, [redacted] seeks to determine from the vendor what "trade support" it will undertake in subsidizing the snack line it fields, i.e., what it will do to boost its position at the chain.

In answer to a question , [redacted] addressed another important factor in determining whether a snack maker could come into the picture for [redacted] and also how snack makers are considered by [redacted] said that should a new manufacturer come to [redacted] without a manufacturing plant near [redacted] this would not necessarily constitute a critical impediment. [redacted] would ask about the shelf life of the

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vendor's product, its basic "freshness" criterion would be examined, and if transport were not utterly cost-prohibitive, with chip breakage and bag destruction in mind, a deal might be struck.

Growth Rebate Incentives

[redacted] stated that [redacted] principal compensation from salty snack vendors is based on case movement compensation, adding it is important for both retailer and vendor to be "motivated." There is normally a discount provided for each case sold at [redacted] This discount is founded on the number of cases sold and not on the size of an advertisement which must be paid for by [redacted] program which pays the chain a rebate if it meets certain incremental brand sales thresholds from prior to current year. Many manufacturers across several categories provide [redacted] with rebate incentives of this kind for meeting sales levels leaping from past year to present volumes sold. [redacted] seemed to [redacted] by saying that growth incentive agreements with the annual formatted [redacted] that many category manufacturers offer may be accomplished either on a regional or a national sales basis. [redacted] also b7D

said many vendors ask "an aggressive" rate increase from year to year, and it is [redacted] daunting task to develop strategies and tactics that meet the growth objectives demanded and shape category plans which also contain somewhat parallel objectives to meet.

Snack Vendor Promotional Participation

One aspect of the vendors' participation in meeting the growth goals [redacted] agrees to shoot for is the demo gambit; serious marketing activity by the vendor is important as well, and consumer support and vendor-sponsored ads are also a part of the manufacturer's responsibility toward helping meet the hurdles that [redacted] is expected to accomplish. There is also an expected level of case-by-case discount payoffs that stress promotional allowances getting passed down to the shopper. In some cases discounts by the manufacturer are not fully passed down by [redacted] if it so desires. [redacted] emphasized that salty snack manufacturers do not include a demand for specific shelf space as part of their sales program package; also their promises of promotional activity are not contingent on gaining space so as to meet the level of sales necessary to pay [redacted] its delayed bonus.

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[redacted] conceded that if a new vendor does arrive in [redacted] it is possible that based on data analysis and [redacted] sales strategy, an incumbent salty snack vendor might lose space in the gondola to accommodate the new party. For instance, it is possible that if a new pretzel company were to enter the gondola, all pretzel makers would lose a section of space to the new party; when this occurs, the losers complain to the chain, but, [redacted] emphasized, competition dictates all necessary changes for [redacted] He added that to retain one's shelf space or move ahead, a vendor must generate exceptional results, simply put. Nina asked whether [redacted] would let salty snack category shelf space slide around the aisle into another aisle and [redacted] said that with rare exceptions this would not happen; salty snacks would stay contained in its own linear area, and is not permitted to creep into new aisles unless another category is steeply declining and snacks are on a stupendous upswing. Such "creeping" seemed to him highly unlikely.

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