Memorandum

Subject Telephone Interview with [redacted]

Date May 14, 1996

60-2096-0002

To File

From Tara Sweeney

7D

This morning, Jill Ptacek, Nina Hale, and Cindy Alexander spoke with [redacted]

Products

[redacted]

Markets

[redacted]

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

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the "mom and pop" shops. These stores are more profitable because they are able to sell a smaller bag and they don't need to "load in" the products for promotions. (He explained that some of the supermarkets "load in" a product on the last day of a promotion and ask for extra time for the lower price. The supermarkets have a larger capacity and are able to store these extra products.)

He explained, that in general, the superstores tend to demand extra payment for things such as shelf space, bread tables, advertising, and in some cases, for invoicing slips. [He explained that there was one store in particular who stated that they must use their invoices and deduct an extra charge for this.]

He tries to make proportional payments to the superstores and the small convenient stores. He explained that the retailers make

a variety of demands: one store may request [redacted] for an ad, while another store may request [redacted] for an ad. In order to create a level playing field, he tries to get extra promotions or give extra benefits to some of the smaller retailers. He explains that he feels the need to keep this competition equal due to the Robinson Packman Act.

b 4, 7D

He also explained that the small stores are particularly important in the [redacted] He states that the small store owner also shops in the big supermarkets. They must be able to see the same deal that they were offered themselves. He believes that competition from other vendors is most important in the supermarkets. Frito-Lay, he explained, has increased their share in the supermarkets. This leaves the 'ma and pa' stores for everyone else. These stores tend to respond better to good service and loyalty. In general, they are not as responsive to the extra money.

He says the convenient stores tend to parallel the supermarket stores where competition is more fierce. One of the reasons why competition is particularly fierce in convenient stores is because the store is physically smaller and there is less space. Over the last 10 years, there's been a move to consolidate vendors in C-stores. [redacted] however, believes that there is room for several vendors in these markets. He said that the snack industry in general provides an excellent margin and that there would be room for competition in the small stores. However, Frito-Lay has been

particularly successful in convincing them to reduce their competition.

There's also pressure today for the convenient stores to increase the amount of prepared foods and their overall total number of categories. As a result, this means they need to shrink some of the existing categories. Furthermore, it is easier for them to limit the number of routes that serve them. If they have only one employee at the cash register, it's important to try to limit the number of distributors that come in and out. He states that their [redacted] This, he states, is a significant amount. b 7D

Entry/ Exit

They were forced to exit out of some chain stores. [redacted]

Competition

[redacted] He explains that warehouse products are treated differently for shelf planning. They are delivered to the warehouse and the store employees need to import them into the store.

He explains that DSD products are particularly profitable for the stores compared to warehouse products. It gives them a [redacted] percent gross profit and their employees do not ever have to touch the product until they ring up a sale. Typically, they don't need to pay for the product until it is bought for the customer. The pricing is done by the manufacturer and their sales are guaranteed. With this in mind, we asked why they don't ask for payment for warehouse products. He explained that it is very clear that [redacted]

He said that once the space program was initiated, Frito-Lay was able to fuel the fire. He says that if you already have a customer franchise, as does Frito Lay, offering payment for space is a quick way to become more dominant. A company such as [redacted] While Frito-Lay continues their advertising campaigns, it's easier for them to also purchase space.

When Eagle went out of business, Frito-Lay lost their national competitor.

Space Allocation

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[redacted]. In fact, it was higher than the revenue that they would make on the products they sold. He believes that Frito-Lay is able to succeed in offering these high prices for shelf space, because they have lower cost and some degree of economies of scale. They are able to negotiate better deals.

[redacted]

He explains there are some retailers who notoriously demand payment. Others state that they know it's common in the industry and they start asking for it as well. There are a handful who base their allocation on sales percentage. He explains that the program of shelf payment has not been in effect long enough for them to see the results. Space is allocated once a year. At this

point, approximately 40-50 percent of the shelf space is allocated to Frito-Lay.

He also states that the yare beginning to see Frito Lay 'dummying up' the shelves. He explained that while the shelves may be five bags deep, they'll only put two bags in to make it look full. He states that this is an indication that a product has more space than is warranted. He explained that although the retailers realize this is happening, they are looking for the short-term profit of shelf space. He believes that Frito-Lay has been able to offer these high prices based on their success with the tortilla chips.

b4, 7D

[redacted] explains that shelf space fees takes up approximately [redacted] of their revenue. This cost has been growing [redacted] to [redacted] percent a year and as a result, they are beginning to spend increasingly less on advertising. [redacted] They have conducted cost projections over for the next five years and have discovered that the money that they are paying out to retailers will eventually eat up all of their advertising budget.

Despite this increase in cost, revenue has consistently grown. They have had to match deals [redacted]

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[redacted]

[redacted]

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He explains that they are regularly forced to exit markets.

[redacted]

[redacted] also says that he knows of stores that have exclusive deals. He said one retailer said that they could be paid a rebate if they would go one brand. This is particularly true in the smaller stores. He explains that supermarkets would probably not consider exclusivity. Frito-Lay, for example, offers smaller stores growth incentive rebates. This is an extra bonus on top of the shelf space fees that they already are paying.. [redacted]

However, even though there may be an agreement and they may have

already paid, it is not uncommon for the store to come back and cancel that contract.

Sales Data

[redacted] b7D

[redacted]

[redacted]

[redacted]

He states that grocery sales data can be purchased from IRI or Nielsen. This data can be purchased showing the revenue per units/SKU (stock keeping units). [redacted]

So/So #10715