Memorandum

Subject Telephone Interview With [redacted]	Date May 16, 1996 60-2096-0002

To Files

From William P. Jones WPJ

7D

On May 1, 1996, Nina Hale, Jill Ptacek and I spoke with

[redacted]

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Exempt under b4, b7D

[redacted]

[redacted]

VOLUME DISCOUNTS

[redacted] But it seems in some stores that Frito Lay has acquired up to 80 percent of shelf space, and is not necessarily selling at a justifying volume, although it is definite that other companies are selling out at the same time in their small alloted space. [redacted] asks why Frito should have all of that space in such cases but not try to equal it with sales. He assumes that Frito must have some sort of retailer-payoff arrangement that allows it to maintain dead space, as an effort to prevent others from using the precious selling space. [redacted] states that Frito makes private label snacks too, and does tremendous levels of advertising at some levels.

b70

b4, 7D

[redacted]

[redacted] relates that often a grocer, will after a year of a snack maker's initial sales, negotiate a volume discount program with the manufacturer which ensure that the manufacturer a portion of shelf for his product and he agrees to create a rebate structure for the chain such as .5 or 1 to 2 percent of sales as rebates to the grocer based on a formula of sales volume over a given period. b7D

b4, 7D

[redacted]

[redacted] He is not aware of Frito's wholesale price but he knows that Frito advertises heavily in the chain's circulars and in other forums and takes a lot of the market. He calls Frito's advertising program and its volume incentive deals "very attractive," adding that as a demonstration, Frito sometimes gives certain chains, as an example, $50,000 at the end of each year,

[redacted] Frito may also pay a one percent starting bonus to that chain [redacted] In addition, Frito calculates its rebate amounts to a chain system of grocery stores based on all sales calculated from day one, so that every possible amount can be added to the paycheck a chain can expect to receive, when payday from Frito Lay arrives.

70

Finally, [redacted] indicates the U.S. grocery chain community is partly to blame for the current state of troubling competitive circumstances, for deciding to focus on selling shelf "real estate," rather than the food product, and it perhaps makes more money on shelf space management than on sales to the consuming public. He states that today's competitive environment is the result of Pepsico and Frito Lay starting the destructive trend in the latter 1980s. About 10 to 12 years ago, big manufacturers promulgated the idea of employing their cash assets to purchase space for their products to the detriment of their competitors; the business abuses that have since occurred have followed the same natural path. [redacted] says that [redacted] emphasized "quality, value and service," but now some new products cannot reach the store shelves and the marketplace

operates on business principles far removed from [redacted] 7D

business history and its capacity to adjust and thrive.

So/So # 10873