Memorandum

Subject Interview with [redacted]	Date May 28, 1996 60-2096-0002 b7D

To Frito File

From Nina B. Hale NH

[redacted]

BACKGROUND

[redacted]

TARGETING COMPETITORS

According to [redacted] Frito's aggressive marketing campaign included targeting specific regional competitors and trying to buy up those competitors' shelf space from the retailer. Typically, Frito will go to a retailer and offer [redacted] to get a particular competitor's shelf space.

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

SHELF SPACE

Often Frito would make cash payments for shelf space. Other times, it would disguise shelf space payments as "rebate plans" or "advertising fees." In both instances, the retailers would admit that the money was really for space accommodation. b 7D

Frito rarely needed the space it bought. [redacted] described a practice called "half filling." If a typical shelf holds bags six feet deep, Frito would only stock the shelves three feet deep.

Frito tended to occupy about [redacted] percent of the shelf space for salty snacks in any given store. In a typical store with [redacted] feet of gondola shelf space for salty snacks, Frito will buy up about [redacted] feet of shelf space, leaving [redacted] feet each for the other vendors.

Most retailers did not explicitly ask for shelf space payments. Usually, a retailer would simply take away space from a vendor and explain that Frito offered X amount for that space. However, some retailers (e.g. [redacted] would ask vendors how much they were willing to pay for shelf space whenever the retailer would do a "re-set." The retailer would approach a vendor who already had shelf space and tell him that Frito offered X amount for the space. If the vendor could not match Frito's offer, he would lose his space.

[redacted]

Buying shelf space is an accepted practice among vendors in the [redacted] area. Every vendor that can do it, does it. [redacted]

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[redacted]

Often a vendor will supplement shelf space payments with "free sets" or "free fills." In essence, the vendor is trading product for space and allowing the retailer to make a full 100 percent profit on a particular product.

RETAILERS SELLING SHELF SPACE

[redacted] gave some examples of retailers who explicitly sell shelf space. [redacted] He requires all vendors to pay for space. He does not allocate based on volume of sales at all. He made a comment t[redacted] to the effect that last time it dealt with him, it was not willing to offer enough to get into his store.

The buyer at [redacted] has made statements that it would be loosening some space and asked what vendors would pay for it.

[redacted]

[redacted] is less explicit about selling shelf space. Payments are often disguised as advertising fees or rebate plans. However, Frito will pay more for an ad than smaller vendors

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will, leading one to believe that the money is actually for something else besides the ad. In addition, Frito admits to others in management that the money is actually for shelf space.

[redacted] allocates space to most vendors based on volume, but it allows Frito to buy up more space than its volume of sales dictates. [redacted] did not have to pay for shelf space. However [redacted] does recall paying [redacted] for "wing racks" (free-standing, free-moving displays located throughout the store). However, it was understood that if a vendor wanted more space that it was allocated, it would have to cough up more money.

[redacted]

INTIMIDATION

Frito also engaged in intimidation tactics. [redacted]

[redacted]

[redacted]

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SHELF SPACE ALLOCATION

claims that shelf space allocation is rarely based on volume. Rather, retailers allocate space by payments for shelf space. If a retailer wants to conceal this fact it will only include its allocation of gondola space in its calculation of space per volume sales. It will not include the endcaps and "shop-arounds" that it also gives to a vendor.

EXCLUSIVITY

PERSONNEL

Frito also makes a regular practice of going after the competition's best salesmen. It tells the salesmen that they might as well go with Frito now since Frito will control the entire market

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in about ten years. [redacted] admits that this is a regular practice within the industry and that every vendor tries to hire its competition's employees.

So/So # 11005