Memorandum

Subject Interview with [redacted]	Date June 18, 1996 60-2096-0002

To Files

From William P. Jones

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Today Nina Hale and Jill Ptacek spoke to [redacted]

[redacted]

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[redacted] informed us that most products in the grocery store are "very slow-moving," perhaps surprisingly and despite our impressions to the contrary; this truth is an important factor for him in his

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[redacted] of grocery goods that [redacted] tracks is slow-moving product, with maybe just one case per store sold each week. That leaves [redacted] percent of the products [redacted] for retail that "flies out" of the store. Snacks move fast. [redacted] inventories approximately [redacted] items in its stores at any given time and much of it sits unsold for an extended period.

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[redacted] **Opinion of Frito-Lay**

[redacted] thinks that Frito is a very well managed and astutely run company. He says that, flatly, Frito "does everything better than all" the other companies, and is both innovative and ultra-efficient in its operation. It has come out with products such as no-fat and low-fat snacks before other companies (such as Baked Lay's) and it

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now is estimated to have 20 percent of the no-fat and low-fat snack market. Frito also provides better service, has hired better personnel in general and is the very best DSD supplier. This is because Frito is known for its seven-day-a-week operation staffed with exceptionally good people who ensure that a [redacted] never runs out of product and who anticipate marketing factors ahead so the chain is always taken care of. It also puts out uniformly good quality products, and [redacted] if there were a rating system applicable to American food manufacturers.

[redacted] cited other exemplary manufacturers he knows about in the snack food category. One is Seyfert's of Indianapolis, IN, which he says puts out very good snack foods and also is good enough [redacted] Also, Golden Flake of Birmingham, AL provides good service and food to the Alabama and Georgia markets. Mike Sells of Dayton, Ohio [redacted] and is an esteemed supplier in the Ohio (and especially Cincinnati) markets. [redacted] also likes Jay's of Chicago, which puts out a good salty snack product and performs good service. Borden, [redacted] reports, purchased Jay's at one time, but Jay's management bought itself back and is now under its original control, putting out

very good product again as an independent salty snack maker. These suppliers have earned and kept some market share, and the effect outside of Texas is that Frito's net market share is far less than reported for the Dallas and Houston markets where now Frito-Lay dominates.

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Exclusive Deals [redacted]

[redacted] stores but will ask for familiar snacks that appear to be missing, should a division be unwise enough to cut out long-term manufacturers or make an exclusive deal with one snack maker.

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[redacted] Normally, salty snack foods are placed on each side of the aisle with the [redacted] However, since each [redacted] store is configured slightly differently, in rare cases there might be a salty snack wraparound display section of which [redacted] is not aware. He stated that the snack food category is a "highly consumable product" and that the physical layout at [redacted] is set up in a different way for every outlet; each local [redacted] division decides how to limit its salty snack food space, but in most cases gives the salty snack variety a great deal of space with a notion of never running out of product. Normally the salty snack is encased in big bags, so [redacted] remembers to "flood" its stores with numerous bags and not run out, which is the cardinal sin. Sometimes wraparound displays could be considered at some [redacted] but this might be difficult and excessive for some shoppers' tastes. [redacted] argues that because salty snacks are a "highly consumable product," [redacted] and other retailers should make them available in large clustered numbers, engendering the cascade effect of shoppers repeat-buying on impulse and stocking up over and over, based largely

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on their urge to have favorite snacks around [redacted] said the above effect is representative of this category, which, unlike detergent is not a periodically used kind of product, but instead is rapidly bought and depleted in what he calls an "exponentially" purchased category.

[redacted]

[redacted] does not solicit shelf space allowances from manufacturers, [redacted] asserted. However, he explained, manufacturers do want new space and [redacted] rationale is that if [redacted] division HQ accepts a shelf space payment it will only be after [redacted] full analysis demonstrating how much risk exposure exists that the product could fail and sales (in valued shelf space) could be depressed, and that, after consultation, the manufacturer truly desires to take the risk along with [redacted] it may need to offer additional dollars to gain the space and somewhat buffer [redacted] risk. For instance, the manufacturer may state to [redacted] "Here's X number of dollars for two more feet of space;" and [redacted] will analyze that possible deal using its own prepared financial models before any final decision. [redacted] looks upon supplemental off-the-shelf displays as an especially enticing and normally successful win-win proposition from manufacturers who want them and pre-pay hard dollars up-front for the

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prospect of big incremental sales. Certain food producers (and their products) tend to elicit shelf space fee deals, among them, the soft drink and snacks industry; [redacted] finds this "a very complex issue," and that supplemental displays tend to attract and trigger high impulse purchasers who gladly buy those products even at greatly inflated prices for what they get; the result: for both manufacturer and retailer incremental business that would otherwise not occur and which does not occur with products "such as Del Monte green beans," he speculated.

[redacted] does <u>not</u> know about the [redacted] individual policies concerning "pay to stay" shelf space allowances. He states we should contact the divisional HQ units to ascertain whether "pay to stay" fees are expected from salty snack food manufacturers, and for related facts.

Owens states [redacted] formal agreement criteria are basically that first, any shelf space deal is legal under Robinson/Patman statutes; secondly, [redacted] can apply its set of analytical models, computed in-house, which it can use as guidelines to its divisions, so those units may decide whether a proposed shelf space deal (Deal "A") beats deal "B" or deal "C". Factors such as the size of a deal in terms of the total amount of product volume transacted, the

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delivery carload drop size, plus other factors are considered as [redacted] division evaluates the proposal. When a deal does not go right later on, unsold extra product becomes sitting inventory and hurts [redacted] significantly, so the its buyers usually must be right, or else.

Salty snack makers usually come into the [redacted] divisions to negotiate their annual plans during the fourth quarter of each year and discuss considered promotions for certain products, the display space they desire, the level of market development funds available for the take-off of the manufacturer's grocery sales and other factors to be negotiated out, all put on the table at this time. In some cases, the concluded deal is for six months or 12 months, but [redacted] sees the trend headed now toward a 12-month salty snack deal between snack firms with many chains. Although [redacted] snack food companies' fiscal years normally compel the manufacturer to arrive for negotiations during the fourth quarter of a year and set things up for his coming calender year. For [redacted] relates, he worked for [redacted]

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[redacted] states that [redacted] deals with different food manufacturers, including snack food makers, are binding agreements and yet are not "legal contracts;" instead, they are arranged informally in the sense that both sides say "here's what we're going to do." If one side fails to fulfill its agreement, then the other can bail out by invoking its termination provisions within the informal document and by giving proper notice that the other side is not upholding its end of the deal and that the deal is thereby terminated. What often happens is that should a snack maker in mid-year be shown to provide poor service, [redacted] can call that party in and state that unless the manufacturer supplies some up-front money at once and/or fixes its operation with [redacted] then our deal is "null and void" and, [redacted] adds, "here's your [initial] money back." This scenario has occurred before. Then, he added, what will happen next is that another snack marketer will notice the empty space or hear of losing producer's default and termination and request the loser's salty snack shelf space; thus, the space is filled up almost immediately at [redacted] concludes by saying this kind of termination is rare at [redacted] because most [redacted] deals are signed to work right and then do work.

Category Captains at [redacted]

At [redacted] there are personnel known as "Category Captains" who get selected from one of the major branded manufacturing companies such as Proctor & Gamble or Frito-Lay or Coca-Cola and these people will come into the [redacted] stores to help evaluate product set-up and the choice of products for the public. Owens insists if they are found to cheat on [redacted] and favor their own companies too much or by deceit, they are booted out of those stores and are considered *persona non grata* thereafter at [redacted]

The Category Captains assist [redacted] in determining consumer purchase habits and help stock the various categories. For instance, Proctor & Gamble personnel may help determine which soaps are sold at [redacted] Frito-Lay personnel or other salty snack manufacturer personnel may be selected to help determine salty snacks selected for display and sale. Some of the information used by such personnel and by [redacted] managers are the IRI and Neilsen data reports. These industry tracking services help [redacted] picture both cost and movement of product in its stores. [redacted] does not get the proprietary information of a competitor such as A&P, nor does A&P get [redacted] data. However, [redacted] is interested in what A&P may be doing with Frito-Lay, for instance, to attract greater profits in terms of

programs that those two companies have set up together. And there are ways of determining how much different one chain's sales are from the next, [redacted] says. While [redacted] can not get its competitor's private data, Frito can get IRI and Neilsen data on its own sales at different chains and then market its line more effectively and graphically, by inference concerning its sales and deals elsewhere when it re-negotiates with [redacted] at a future date. Ruefully, [redacted] states that only [redacted] shoppers in the [redacted] universe "go [redacted] So [redacted] genuinely needs to understand, in a fair manner, what its competitors are doing with the vast shopping population it never sees, in hopes of maintaining or somehow its boosting market share.

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One way that it is able to make headway in gaining efficiency and potentially vital knowledge, legally, is to chose to employ for a time a Category Captain from one of the top three suppliers in a food category; sometimes good information and other help flows from these sources. [redacted] remembers one case, and perhaps other cases, when weaker suppliers were drafted to provide Captains because their data technology was superior, or due to other factors, although the supplier was not a high sales contributor at [redacted] Their good people, data and information systems investment offset the brand's

minimal presence at [redacted] Yet in general, the rule of thumb, [redacted] reports, is the bigger suppliers will be supplied with more and better technical information, more "available" people and cross-functional individuals who can be of use to a chain like [redacted] and become Captains.

[redacted] **Divisional Category Managers**

[redacted] has its own divisional grouping of Category Managers, such as salty snack food managers, who set about producing yearly category plans and [redacted] sees about 10 to 15 of those plans produced per year. The salty snack Category Manager in any division will probably produce one category plan and that information will include space allocation per snack maker, the total number of brands and products being sold, pricing information, and promotional strategies that are utilized by all of the [redacted] stores in that division. Each division generates 4 to 5 Category Plan studies per year.

[redacted] objective is to "grow" different categories and to fix a percentage that it wants to grow by and shoot for. So it monitors on a monthly basis and by quarterly review its progress in growing that category. There is often a six-month review to adjust the plan if necessary. If the category plan has gotten off track at that stopping point, [redacted] may need to re-enter negotiations with a given

manufacturer in order to adjust the progress of the category. [redacted] states that [redacted] will "tweak" the plan by store and by division, if necessary, to help jump start [redacted] operational profit plan. A critical aspect of this "tweaking" is that [redacted] expects a bonus from many manufacturers if their incremental business sales figure is achieved for a given sales period; this is a major [redacted] goal, [redacted] emphasizes. Pay-back on all sales of a manufacturer's line and not just current-period incremental sales would also be a major [redacted] goal, if it is negotiable. The division Category Manager is the deciding authority in terms of adjusting different store's operations within his division.

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