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| Case #2 |
| Frito-Lay, Inc |
| Sun Chips Multigrain Snacks |
| BUAD 6300  University of Toledo  Dr. Michael L. Mallin |

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**Strategic Issue**

After a test-market for Sun Chips has been successful in Minneapolis, Frito-Lay is now trying to determine what to do next: continue the test, expand the test to other geographical areas, introduce the product nationwide, or modify the strategy.

**Analysis and Evaluation**

Snack Food Industry and the Snack Chips Segment

Snack chips are a segment of the snack food industry. The products in this category are made up of potato, corn and tortilla chips, pretzels, and ready-to-eat popcorn. The snack food industry includes snack chips but extends to all kinds of snacks including but not limited to: candy, cookies, crackers, nuts, etc…

Impressively, in 1990, the United States purchased 3.5 billion pounds of snack chips which equated to 14 pounds per person. The snack chip segment, in 1990, brought in $9.8 billion in retail sales.

Competition

The category of snack chips is a highly competitive segment of the snack food industry with highly competitive pricing and heavy reliance on price deals to attract customers. On average (according to the case), 650 snack chip products are introduced each year consisting mainly of new flavors for existing products. However, regardless of the high amount of new products introduced each year, the failure rate is extremely high. For example: less than 1% of new products in this segment produce more than $25 million of sales in the first year.

There are three distinct types of competitors for the snack chips category: (1) National brand firms (such as Frito-Lay, Proctor & Gamble, RJR Nabisco, Keebler, etc…), (2) regional brand firms, and (3) private brand firms (i.e. Kroger brands).

Frito-Lay

Frito-Lay is very strategically positioned within the snack food industry. They account for 13% of sales in the United States snack food industry and are the leading manufacturer of snack chips in the United States; accounting for half of the retail sales of snack chips. In fact, 8 of the top 10 best-selling snack chip items in United States supermarkets are a Frito-Lay product (Doritos, Ruffles, Lay’s, Fritos, Cheetos, Tostitos, Frito-Lay Variety Pack, and Santitas).

Frito-Lay operates based on four basic strategies:

1. *Grow established Frito-Lay brands through line extension. This can be a change in the variety of tastes or sizes.*
2. *Create new products to meet changing consumer preferences and needs.*
3. *Develop products for fast-growing snack-food categories.*
4. *Reproduce Frito-Lay successes in the international markets.*

Their greatest advantage is the fact that Frito-Lay has such a diverse selection of goods and offers innovative products to their consumers; entirely new products not currently on the market.

Sun Chips

The introduction of Sun Chips was a direct result of Frito-Lay searching for a healthier option for the baby boomers generation who are seeking healthier and “better-for-you” options when it comes to everyday snacks. This snack chip was specially designed to provide a healthier alternative to corn and potato chips and offer a whole grain/wheat option. Since Sun Chips were developed as a healthier option for consumers, they were also advertised as such:

* For people who care about what they eat,
* Natural flavors and natural great tasting grains,
* They make you smarter,
* A combination of great taste, great crunch, and natural goodness, and
* The Sun Chips name portrayed a positive consumer image and suggested that the product was “wholesome, great tasting, light, distinctive, and fun.”

Prontos

Frito-Lay previously introduced a similar multigrain product to the snack chips segment, Prontos, in 1974. Unfortunately, the product did not do very well and was ultimately discontinued in 1978 because of the following reasons:

* The name was confusing and did not convey the proper message of a healthier alternative,
* There was too narrow of a market, and
* The manufacturing process was difficult.

According to Riskey, the product was invented and introduced before its time. However, the demand for healthier alternatives is now more prevalent than ever and the market for those making the demands is huge due to the large number of baby boomers. Another important concept is that Frito-Lay now has the capability to sustain the different manufacturing process that this new product requires.

Test Market Results

In order to determine whether or not Sun Chips would be profitable for the company, Frito-Lay decided to run a test market in the Minneapolis-St. Paul metropolitan area. This area was chosen because it was representative of the United States social and economic profile. They marketed both the Natural and French Onion flavors in two different packages: 7-ounce and 11-ounces (identical to that of Doritos). They also used a 2 ¼-ounce trail package to introduce the product. The suggested retail prices were the same as that of Doritos and the primary audience was adults between 18 and 34 and the secondary audience expanded the age to 49. Frito-Lay relied on television advertising, in-store displays, free samples, and coupons as the main source of advertising.

The following was concluded:

* 90% of purchases were made in supermarkets and convenience stores,
* The 2 ¼-ounce package accounted for 15%, the 7-ounce accounted for 47%, and the 11-ounce accounted for 30% of sales,
* 1 in 5 households tried the product and of those, 41.8% repurchased the product over the 10 month span,
* Repeat purchasers purchased the product an average of 2.9 times,
* 30% of the sales were cannibalism (1/3 coming from Doritos), and
* There was 33% brand awareness.

The only negative to the findings is that 10 months is not a very long time to test a product, the numbers and information gathered could be misleading for long term sustainability.

Three (3) Marketing Challenges

After the test market was complete, there were a few challenges realized with the introduction of Sun Chips:

1. *Product Cannibalism* – Whenever a new product is introduced into the market, if the company provides similar products, there is always the chance of cannibalism. Most times, cannibalism is expected and accounted for. However, if it is too high, it must be accessed to determine which item will generate more revenue in the long run.

After the test market, it was found that 30% of Sun Chips’ pound volume resulted from consumers switching from Frito-Lay’s potato, tortilla, and corn snack chips and about 1/3 of this cannibalism came from Doritos. This percentage was expected and therefore normal. However, there is a gain from this cannibalism because the gross profit from Sun Chips was $1.30 per pound while the gross profit from other snack chips was $1.05 per pound (a $0.25 increase of gross profit per pound).

1. *Sustainability* – There was much concern with the sustainability of Sun Chips in the long run. While the test market numbers were good, management was not entirely sure that this new product would be sustainable over time.

Sustainability can be estimated via the “depth of repeat” which is the number of times a repeat purchaser buys a product after the initial repeat purchase. During the test market, this number was 2.9 (meaning that repeat purchasers of the product purchased the product an average of 2.9 times over the course of the test market). Compared to 1.9 for Frito-Lays O’Grady’s brand, these numbers looked fairly promising for sustainability.

1. *Timing –* The are pros and cons to either introducing a new product too early or too late If you introduce a new product too early, you may not have enough information to accurately forecast the numbers associated with introducing that new product (cannibalism, sustainability, sales, brand awareness, etc…). This can be detrimental if you are forecasting for a product to do well and then it does not.

On the other hand however, if you do not introduce your product fast enough, you may lose your competitive advantage for that market. Generally, the first to penetrate a market with a new idea becomes the leader of that market/product. If you wait too long to put your new product on the market, you risk a competitor being the first to introduce a similar item and becoming the leader. This could be detrimental to your forecasted numbers as well.

**Recommendations/Implications**

My recommendation would be to introduce Sun Chips to other markets strategically with the same size packaging as in the test market and at the same suggested retail price as Doritos. It would be a good idea to introduce the new item in most other metropolitan areas around the country but not everywhere at once. You could consider this an extension of the test market but on a more grand/larger scale. While it will be risky to put the initial investment into this new product so quickly, the choice to not go ahead quickly could present a huge disadvantage to the company.

The problem lies in that if the company waits too long to introduce the product to the masses, they run the risk of competition mimicking their item and beating them to being the first to introduce this type of product and they would ultimately lose their competitive advantage. On the same account, they would also be minimizing some risk by introducing the product in select areas at first. This way, if the test market was incorrect, the devastation would not be as high as it could be. This is important because the test market was not even a full year and the numbers could possibly be skewed. Strategically introducing Sun Chips to other metropolitan areas strategically, would allow more time to gradually gain additional knowledge of how consumers will react to Sun Chips.

Regardless, the introduction of a product such as this fits in perfectly with Frito-Lays strategy to create new products. It also seems, according to the short test market, that Sun Chips will do fairly well since they have a high gross profit, high number of repeat purchasers, high brand awareness rate, and are showing better results than some of their other products on the market.