SULIT

UNIVERSITI UTARA MALAYSIA

PEPERIKSAAN AKHIR
SEMESTER PERTAMA SESI 1999/2000

KOD/NAMA KURSUS : PM 3043 STRATEGI DAN ANALISIS PEMASARAN

TARIKH : 18 SEPTEMBER 1999
MASA : 9.00 – 11.30 PAGI (2 ½ JAM)
TEMPAT : DP 3/1

ARAHAN :

1. Kertas soalan ini mengandungi LAPAN (8) soalan dalam EMPAT (4) muka surat yang bercetak.
2. Anda didehndaki menjawab SEMUA soalan di dalam lampiran jawapan yang disediakan.

SEMoga BERJAYA......!!

NO. MATRIK :____________________________ (dengan perkataan) (dengan angka)

NO. KAD PENGENALAN :

NAMA PENSYARAH :
KUMPULAN :

JANGAN BUKA SOALAN INI
SEHINGGA DIBERI ARAHAH

SULIT
SOALAN 1:

Ada banyak kaedah/cara/asas yang boleh digunakan untuk mendapatkan strategi perbezaan. Namun ada dua asas yang paling biasa digunakan kerana mempunyai kelebihannya yang tersendiri.

Nyatakan dua asas berkenaan dan kelebihan yang menyebabkan ia sering dipilih oleh syarikat bagi melaksanakan strategi berkenaan.

(5 Markah)

SOALAN 2:

Bagaimana boleh kita laksanakan Fokus Strategi. Terangkan (beri contohnya Sekali).

Serta berikan dua kelebihan dan dua kelemahan strategi ini.

(10 Markah)
SOALAN 3:

Apakah yang dimaksudkan 'Market Follower'?
Berikan dua kelebihan dan dua kelemahan strategi ini?

(5 Markah)

SOALAN 4:

 Salah satu Growth Strategy adalah Market Penetration.
Terangkan strategi ini (Market Penetration) dan juga terangkan bagaimana ianya boleh dicapai dan dilaksanakan.

(10 Markah)

SOALAN 5:

Apakah yang dimaksudkan dengan Related Diversification?
Berikan dua kelebihan dan dua kelemahan strategi ini.

(10 Markah)
SOALAN 6:

Berikan 3 Entry Strategy untuk mendapatkan Strategi Pembelbalagan.

Terangkan secara ringkas.

(10 Markah)

SOALAN 7:

i) Apakan bezanya di antara Declining Market dan Hostile Market?

(2 Markah)

ii) Salah satu pilihan yang ada bila berhadapan dengan Declining Market ialah Liquidation. Berikan keadaan ataupun signal pasaran yang menyatakan kita perlu liquidate terus perniagaan yang sedang kita jalankan.

(8 Markah)
SOALAN 8:

Soalan ini berdasarkan kepada Kes Frito Lay's Dip.

i) Apakah kelebihan dan kelemahan yang boleh anda rumuskan (daripada kes) jika Frito Lay's hanya memberi tumpuan kepada segmen 'chip dip' sahaja.

(10 Markah)

ii) Apakah kelebihan dan kelemahan yang boleh anda rumuskan (daripada kes) jika Frito Lay's hanya memberi tumpuan kepada segmen 'vegetable dip' sahaja.

(10 Markah)

iii) Berdasarkan kepada kes yang diberikan yang mana satukah daripada strategi di atas (memberi tumpuan kepada segmen chip dip ataupun segmen vegetable dip) patut diambil oleh Frito Lay's.

(5 Markah)
Frito-Lay's® Dips

In late 1986, Ben Hall, Marketing Director, and Ann Meadors, Product Manager, had just completed the planning review for the line of dips sold by Frito Lay Inc. Frito-Lay's Dips were a highly profitable product line, but had shown phenomenal sales growth over the past five years. Sales in 1985 were $37 million compared with $20 million in 1981.

A major issue raised at the planning meeting was where and how Frito-Laying Dips could be developed further. Two different view points were expressed. One view was that the dip line should be more aggressively promoted in its present market segment. This segment was broadly defined as the chip dip category. The other view was that Frito Lay should also actively pursue the vegetable dip category. The company had recently introduced a shelf-stable, sour cream-based French Onion dip nationally and 1986 sales were forecasted to be $30 million. The new dip was the first sour cream-based dip introduced by Frito Lay. Some executives felt that this dip could provide a bridge to the vegetable dip category, which could be further developed.

Frito-Lay executives had yet to decide how much emphasis to place on each category in 1987. Furthermore, expense budgets would need special consideration. More aggressive marketing would require higher marketing investment or at least a reallocation of funds, while at the same time the gross margin and profit contribution of dips would have to be preserved.

**DIP CATEGORY**

Dips are typically used as an appetizer, snack or accompaniment to a meal. Dip popularity has risen in recent years as a result of the convenience of use; multiple uses; and graying trends in the United States. Dips can also be served along with chips, crackers, raw vegetables.

The market for dips is highly fragmented and difficult to measure, however, upward of 80 percent of dip sales are accounted for by supermarkets. According to an industry estimate, total dip retail dollar sales volume through supermarkets was $20 million in 1985. Two-thirds of this dollar volume was accounted for by prepared dips, the remainder was accounted for by dip mixes and 2-for-1 dips.

About 70 percent of the prepared dips sold in supermarkets are refrigerated. The major competitors in the current market were Kraft Foods, a large number of regional names and a few brand names. Refrigerated dips were seen as the key to the future.
Flavor Popularity and Usage

Some cream-based dips are the most popular flavor. Sour cream-based prepared dips and dip mixes account for about 50 percent of total dip sales. Cheese-based dips are the second most popular segment and account for about 25 percent of total dip sales. Bean and picante dips account for about 10 percent of total dip sales, and cream cheese-based dips account for the remaining 15 percent.

Dips are most frequently used with salty snacks, such as potato chips and corn chips. Whereas about 85 percent of total dip sales are linked to salty snack usage, virtually all bean and picante dips are consumed with salty snacks. One-fifth of cream cheese-based dip volumes and 4 percent of cheese-based volume are linked with chip usage. Shelf-stable dips and many dip mixes are located adjacent to salty snack goods in supermarkets. Dry soup mixes are typically shelfed with canned soups. Approximately 50 percent of all dip sales ($2.20 million) are linked to vegetable usage, and most of this volume is sold through supermarkets. Vegetable dips are located throughout supermarkets, in produce sections, salad dressing, and snack sections, since they are used as a complement to prepared products as opposed to as a complement to prepared products. Two brands, Dips Mixes and Bennet's Toppings, are located in the produce section, but each is sold on a regional basis. Numerous local brands are also shelfed in the produce section.

The popularity of Mexican food, including nachos, has fueled the growth of cheese-based dips in particular. New-product introductions and competing fast-food establishments have also contributed to the growth and acceptance of Mexican-style dips. For instance, Kraft, a major competitor in cheese dips, added Mexican flavors to both its new and existing product lines in 1985. A new product included Kraft Nacho Cheese Dip, and Kraft Premium Nacho Cheese Dip. Kraft also added a Mexican-style to two of its popular products: Velveeta Mexican process cheese spread features Mexican pepper and Kraft Cheese Whiz is sold in two versions of hot sauce and mild sauce. Kraft competes primarily in the dip segment of the dip market. In late 1985, however, Kraft entered the shelf-stable segment with Kraft Nacho Dip and Kraft Nacho Cheese Dip.

Dip Substitutes

Even though the market for dips is large, it is estimated that about 30 percent of the volume is consumed by households and 70 percent is consumed by restaurants. In addition, many consumers use refrigerated salad dressings for dips. Especially low-calorie diets have continued to grow. Therefore, a growing number of new dips are being marketed to health-conscious consumers who are looking for low-fat, low-calorie, or no-calorie options.
EXHIBIT 1

Estimated 1985 Supermarket Dip Sales at Retail Prices

Total Dips: $620 million

Prepared Dips: $420 million

Refrigerated Dips: $235 million

Sour Cream-Based: $220 million

Cheese-Based: $30 million

High-Low: $31 million

All Others: $131 million

Dip Sauces: $200 million

Cream Cheese: $92 million
Refrigerated salad dressings are typically located in the produce section of supermarkets, and include such brands as Marie's, House of Remy, Mamejeans, and Walden Farms, as well as a few local brands in different areas of the country. Market research indicates that refrigerated salad dressings sold in the produce section of supermarkets account for $67 million in retail sales annually. Retail sales of refrigerated salad dressings have been growing at a compound annual rate of 18 percent since 1978.

Competitive Activity

Competitive activity in the dip market accelerated in 1984 and 1985. During these two years, numerous new products were introduced, and advertising expenditures increased. Industry sources estimated that dip competitors combined spending into 1985 reached $8 million for consumer advertising alone. This figure was 25 percent higher than in 1984.

Equally noteworthy is the fact that large, well financed companies began to aggressively pursue the dip market. For example, Campbell Soup introduced a new soup dip and a line of vegetable dip mixes in 1985, and Lipton expanded its line of vegetable dip mixes and upgraded its packaging in 1985. According to Ann Mahoney of The Wall Street Journal, the companies, coupled with Borden, Kraft, and regional chip manufacturers, have dramatically altered the competitive environment for chip dips in the past two years.

FRITO-LAY, INC.

FRITO-LAY, INC. is a division of PepsiCo, Inc., a New York-based diversified consumer products company. The major PepsiCo companies include Pizza Hut, Frito-Lay, Pepsi-Cola Bottling Group, Kentucky Fried Chicken, and Quaker Oats. In 1985, the company reported net sales of $76.5 billion.

FRITO-LAY is a nationally recognized leader in the manufacture and marketing of salty snack foods. The company's major salty snack products and brands include potato chips (Lay's, Doritos, Tostitos, Walkers Goldfish), corn chips (Tostitos, Frito-Lay), popcorn, pretzels, and other snacks. The company markets a line of corn and potato snacks in addition to its core products. In 1985, the company's net sales were $76.5 billion.

Given the nature of its products, FRITO-LAY competes primarily with what it termed the salty snack food segment of the snack food market. In 1985, FRITO-LAY captured about 15 percent of the salty snack food market in the United States.

The Dip Business

In the last two years, Frito-Lay introduced the Lay's Potato Chip Dip and the Ruffled Bean Dip. These dips are marketed as a complement to the company's Lay's potato chips. A Pinto Bean Dip was introduced in 1978 to complement the newly introduced Ruffled Bean Dip. These three dips were the only Lay's dips sold until 1985.
The popularity of the Mexican dips inspired Frito-Lay to diversify its product line. In the late 1980s, Frito-Lay introduced a number of other dips, including Mild Enchilada, Cheddar and Enchilada, and Mild Cheddar and Pepper. These dips were packaged in three ounce cans like the Mexican style dips. According to Ben Ball, "Cheese dips were an extension of Frito-Lay's恸月 dips business and were a response to the Mexican food phenomenon sweeping the country. These new dips were shelf stable and were sold under the Frito-Lay brand name. Ball commented, 'There was some discussion about whether or not we should use the Frito-Lay brand name with the cheese dips. However, we chose to stay with the Frito-Lay name to make use of the company's equity in salty snacks and capitalize on the company's strengths in marketing and distribution.' The cheese dips, like their predecessors, were displayed in the salty snack section of supermarkets.

In 1986, Frito-Lay introduced its first sour cream-based shelf stable dip. This dip carried the Frito-Lay name and was displayed in the salty snack section of supermarkets. Its French onion flavor was viewed as an ideal fit for the company's potato chips. Industry data indicated that about 60 percent of salty snack volume sold in the United States was accounted for by potato chips. In addition, this onion dip was also deemed suitable as a vegetable dip.

Frito-Lay's dip sales for the period 1981-1985 are shown in Exhibit 4. The popular Bean Dip and Pepper Salsa Dip showed consistent, although slow, growth in these early years. Enchilada Bean Dip was dropped from the Mexican dip line in 1986. Sales trends indicated that Mexican dips would show a 5 percent increase in sales in 1986. Cheese dips, in comparison, represented a larger success and outsold Mexican dips in the introductory year. Nevertheless, total dollar sales of dips declined in 1985, and 1986 sales of cheese dips would be unchanged from the previous year. Ann Murabito attributed the decline to three factors. First, the novelty of shelf stable cheese dips had passed. Second, the nature of shelf stable cheese dips had passed. Third, the nature of shelf stable cheese dips had passed. Milabito commented, 'We had good early penetration for the products, however, with the passage of time, we settled down to a core group of customers. Second, she believed that increased competition was a factor. Third, we always played a part in slowing Frito-Lay's dip volume growth. Third, the introduction of Enchilada Bean Dip had had an unexpected effect. It had been expected that consumers would switch to Frito-Lay's other Mexican dips. They didn't, and we lost customers.' Murabito noted. Nevertheless, dips were a highly profitable product line. Exhibit 4 shows the 1985 income statement for the dip product line.

### Exhibit 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexican Dips</th>
<th>Cheese Dips</th>
<th>Sour Cream Dip</th>
<th>Total Dips</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Income Statement for Frito-Lay's Dips, 1985 (In Thousand of Dollars)

<table>
<thead>
<tr>
<th></th>
<th>Mexican Dip</th>
<th>Cheese Dip</th>
<th>Total Dip</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Sales</td>
<td>$9,940</td>
<td>$8,296</td>
<td>$18,236</td>
</tr>
<tr>
<td>Gross margin</td>
<td>19,146</td>
<td>21,976</td>
<td>41,122</td>
</tr>
<tr>
<td>Marketing expense</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Selling</td>
<td>8,798</td>
<td>11,044</td>
<td>19,842</td>
</tr>
<tr>
<td>Freight</td>
<td>1,464</td>
<td>1,825</td>
<td>3,289</td>
</tr>
<tr>
<td>Consumer advertising</td>
<td>60</td>
<td>87</td>
<td>147</td>
</tr>
<tr>
<td>Consumer and trade promotion</td>
<td>854</td>
<td>1,352</td>
<td>2,205</td>
</tr>
<tr>
<td>Total marketing expense</td>
<td>11,773</td>
<td>14,308</td>
<td>26,081</td>
</tr>
<tr>
<td>General and administrative overhead</td>
<td>2,781</td>
<td>3,791</td>
<td>6,572</td>
</tr>
<tr>
<td>Profit contribution</td>
<td>$5,192</td>
<td>$5,777</td>
<td>5,959</td>
</tr>
</tbody>
</table>

Note: Selling and freight expenses are variable costs. Consumer advertising and consumer and trade promotion are fixed costs budgeted annually. General and administrative overhead expenses are fixed costs.

### Dip Distribution and Sales Effort

Frito-Lay distributes its products through 450,000 outlets nationwide. In 1985, 54,000 outlets were supermarkets, 17,000 were convenience stores, and 20,000 were non-food outlets. The remainder of Frito-Lay's 550,000 outlets were small grocery stores, liquor stores, service stations, and a variety of institutional customers. The great majority of Frito-Lay's Dips, however, are sold through supermarkets.

Frito-Lay's distribution system is organized around four geographical zones that cover the entire United States. Each zone contains distribution centers that inventory products for the Frito-Lay sales force, which is composed of over 10,000 individuals who make 400,000 sales and delivery calls during an average workday. Each Frito-Lay salesperson follows a specific assigned route and is responsible for selling company products to present and potential customers on his or her route.

Frito-Lay uses a "front-door store delivery system," in which one person performs the sales and delivery functions during a visit to a store. The driver/salesperson takes orders, unloads the product, stocks, and arranges the shelves, and handles in-store merchandising. This sales and delivery system is particularly suited to the 270,000 nonchain outlets serviced by Frito-Lay. Experience has indicated, however, that sales calls on chain-store accounts, which include most supermarkets, virtually always require participation by a Frito-Lay Region or District Manager. Such participation is necessary because chain-store buyers purchase for all outlets on the chain and approve in-store merchandising plans as well. Furthermore, the sales task and account servicing are more time-consuming and complex, although no less important than those required for individual outlets (e.g., mom-and-pop grocery stores and liquor stores).

### Dip Marketing

Prior to 1985, the Frito-Lay's Dips line was viewed as a nonpromoted private label product. With the introduction of cheese dips in 1985, Frito-Lay began promoting dips, but virtually all marketing and promotion was directed toward retail store stock levels.
The initial and consumer promotions such as product sampling and advertising were completed before
the television and radio advertising were introduced the first time.

Exhibit 4 summarizes the advertising and merchandising expenditures for the period 1983-1986. Exhibit 5 illustrates a typical consumer promotion and Exhibit 6 shows a typical trade promotion. A typical television commercial is shown in Exhibit 7.

Ann Merhaut provided the following rationale for the change in promotion mix:

The phenomenal success of Frito-Lay's Dips was due in part to factors that we had
the right product - cheese dips were novel, and our flavors were innovative. Second,
we had the right merchandising location next to salty snacks. Prior to 1983, most
our advertising and merchandising spending was trade oriented because our
ways to gain distribution in supermarkets and shelf space required. Our consumer
household penetration increased from 12 percent in 1983 to 20 percent in 1985
largely by placing cheese dips near salty snacks. This penetration increase
resulted in a need for consumer pull marketing.

For the most part, dips were promoted jointly with Frito-Lay salty snacks, par
ticularly Doritos' tortilla chips. According to Ben Ball, this approach was adopted
because dips are a complementary product. He added, "It was felt that when
cheese dips were displayed in conjunction with a natural snack, Frito-Lay was built
the dip chip business. This association was conveyed in our promotion and in our
joint placement with salty snacks．

FUTURE GROWTH OPPORTUNITIES


<table>
<thead>
<tr>
<th>Year</th>
<th>Consumer Advertising</th>
<th>Consumer Promotions</th>
<th>Trade Promotions</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>$1,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986</td>
<td>$2,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>$3,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988</td>
<td>$4,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>$5,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chips Dip Opportunity

One view expressed at the planning meeting was that Frito-Lay should capitalize on its foothold in the chip dip market and attempt to expand the market and build market share. Several arguments were made for this strategy. A recent brand audit indicated that only 30 percent of chips were currently paired with dips. Furthermore, only 2 percent of all US household visits included dips. The market offered a unique opportunity to expand consumption from about 2 grams per visit to 50 grams per visit. This would be a significant increase in market share for the Frito-Lay brand. The market was projected to be highly concentrated with only a few large companies dominating. By increasing attention on the chip dip category, Frito-Lay had the potential to capture a significant portion of the market.
Frito Lay's Dips Trade Promotions

- **Frito Lay's Cheese Dip**
  - 00¢
  - Doritos

- **Frito Lay's Cheese Dip**
  - 00¢
  - Doritos

- **Frito Lay's Cheese Dip**
  - 00¢
  - Doritos

- **Frito Lay's Cheese Dip**
  - 00¢
  - Doritos

Although various cheese dips had been introduced, the Frito Lay's dips in the image are a new entry. Each dip is priced at 00¢, making them an attractive promotional offer.
EXHIBIT 7

Frito Lay's Dips Television Commercial

TPAC-LOCKE
CLIENT: Frito-Lay, Inc.
PRODUCT: Frito Lay's Dips

TITLE: "Magnetism"
LENGTH: 15 Seconds
COMMERCIAL NO.: PEGO 6193
FIRST AIR DATE: 2/21/86

SYNOPSIS:

The experiment is about magnets and how they attract each other.

ACTOR 1

Seated at a table, eating a bowl of Frito Lay's Dips. He is attracted to the dip's magnetism.

ACTOR 2

A lab technician explaining the science behind the magnetism of the dip.

ACTOR 3

Standing behind the counter, holding a magnet, demonstrating its effect on the dip.

ACTOR 4

Another lab technician picking up the dip, attracted to its magnetism.

ACTOR 5

The voiceover emphasizes the magnetic properties of Frito Lay's Dips.

SCENE

1. Actor 1 eating Frito Lay's Dips
2. Actor 2 explaining magnetism
3. Actor 3 demonstrating magnetism
4. Actor 4 picking up the dip

MAGNETISM:

Frito Lay's Dips are made with magnets, which attract to each other.

SCIENCE EDITOR:

The best way to remember Frito Lay's Dips is to taste them! Magnetism makes what it does to our chips.

DESCRIPTION:

1. Actor 1: Eating Frito Lay's Dips
2. Actor 2: Explaining magnetism
3. Actor 3: Demonstrating magnetism
4. Actor 4: Picking up the dip

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MAGNETISM:

Frito Lay's Dips are made with magnets, which attract to each other. This is demonstrated by the actors picking up the dip.

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achieved that the proportion of advertising and merchandising spending to sales (A/S ratio) for prepared dips was 10 percent. Refrigerated salad dressings had an A/S ratio of 5 percent and salad dressing dips had an A/S ratio of 40 percent. In 1985, Frito-Lay's A/S ratio for its chip product line was 2.5 percent. Therefore, the 1986 advertising and merchandising budget had been more than double 1985 expenditures. A breakdown of these expenses is shown in Exhibit 8.

A critical argument was that Frito-Lay could spin off other products from its sour cream-based dip.

Other executives argued that the opportunity in the chip dip category was less promising. They based their argument on three points. First, competitive activity was such that Frito-Lay could only hope to hold, not improve its position in the chip dip category. The effort and expense necessary to increase penetration and to increase purchase frequency in the congested chip dip category could be better spent on attacking vegetable dips, where the competition (such as Manchego) was less formidable and more fragmented. Second, Frito-Lay's recent sales growth in dips was due to new products (for example, cheese-based dip) and it was not clear that further product line extensions could produce continued growth. There was also significant potential for cannibalization of existing cheese dips if the line was expanded further. Third, the new sour cream dip represented a break with Mexican-style dips and cheese dips and was probably more suitable for vegetable dipping. To promote and distribute this new dip solely as a chip dip rather than as a vegetable dip could mean a missed opportunity.

**Vegetable Dip Opportunity**

Executives who voiced concern about focusing on the chip dip category also raised several points in favor of the vegetable dip opportunity. First, they noted that 55 percent of dip sales were linked to vegetables. Moreover, industry research indicated that only one-fourth of the dollar volume associated with vegetable dipping was accounted for by refrigerated salad dressings such as Manchego. The remainder was accounted for by dip mixes and refrigerated dips, and no major competitor had a strong competitive position in the market. Second, research indicated that sour

**EXHIBIT 8**

**Planned Frito-Lay's Dip Advertising and Merchandising Expenditures by Product Line, 1986**

<table>
<thead>
<tr>
<th>Product Line</th>
<th>Consumer Advertising</th>
<th>Consumer Promotion</th>
<th>Trade Promotion</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexican and Cheese</td>
<td>$1,800,000</td>
<td>$2,300,000</td>
<td>$2,800,000</td>
<td>$6,900,000</td>
</tr>
<tr>
<td>Salad Dressing</td>
<td>$1,400,000</td>
<td>$1,500,000</td>
<td>$2,000,000</td>
<td>$4,900,000</td>
</tr>
<tr>
<td>Frito-Lay</td>
<td>$1,500,000</td>
<td>$1,600,000</td>
<td>$2,100,000</td>
<td>$5,200,000</td>
</tr>
<tr>
<td>Sour Cream</td>
<td>$1,600,000</td>
<td>$1,700,000</td>
<td>$2,200,000</td>
<td>$5,500,000</td>
</tr>
</tbody>
</table>

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The table above illustrates the planned Frito-Lay's dip advertising and merchandising expenditures by product line for the year 1986. It highlights the allocation of funds towards consumer and trade promotions as well as the overall expenditure.
cream-based dips were more popular than cheese dips for vegetable dipping. Third,
trend data indicated that consumers were becoming concerned about the nutritional
value and salt content of prepared foods. It was felt that this trend could affect
preferences for vegetables and salty snacks and, as a result, dips. Fourth, the Frito-Lay 90s
Dips line now had a sour cream-based dip that had not yet been promoted and
merchandised for vegetable dipping. Fifth, no major competitor had introduced a shelf
stable dip for vegetables. Frito-Lay had pioneered the shelf-stable business for chip
dips, and some executives felt that a similar opportunity existed for vegetable dips.
Finally, a cost analysis indicated that the gross margins would be largely unaffected.

The gross margin on Frito-Lay's sour cream dip was 45 percent.

Other executives expressed the view that pursuing the vegetable dip segment
would not be easy, however. These executives cited research indicating that super-
market executives preferred that dips suitable for vegetable dipping be handled by
their produce warehouse. This meant that Frito-Lay's food-door delivery system
would not be favored. Distribution through the produce warehouse would also in-
volve dealing with supermarket produce buyers and managers. Frito-Lay had never
dealt with these individuals in the past, and some company executives believed that
a totally new sales approach would be necessary. Even though a complete cost analy-
sis had not been conducted, it was estimated that selling expenses could increase
to 25 percent of sales. Current sales expense was 22.7 percent. Freight expense would
not be affected. As of 1986, the sour cream dip was not distributed by any general
and administrative center. Furthermore, Frito-Lay drivers/salespeople were unfamiliar
with merchandising practices at the produce section of supermarkets. This same re-
search indicated that any new vegetable dip should be shelved near to refrigerated
salad dressing or meat produce.

A second concern was that Frito-Lay's 90s Dips would lose some economies in ad-
vertising and merchandising. Frito-Lay's 90s Dips had been promoted jointly with the
company's chips in the past and thus traded on the 'Frito effect' of Frito-Lay's salty
snacks. Minibah acknowledged that vegetable dips would have to 'go it alone' be-
cause Frito-Lay's halo effect might not translate to vegetable dips.

A third concern expressed at the meeting was that any new vegetable dips
would require more than a single item. In addition to the French onion flavor, other
flavors (such as ranch style) would be necessary. Such line extensions would require
added research and development expenses and promotional support. As had been
the case with the successful introduction of cheese dips.

The planning meeting adjourned without resolution of the issue. Ben Ball asked
Ann Minibah to give the 'chip dip versus vegetable dip' question further consider-
ation. She was to prepare a recommendation for another meeting to be scheduled
within 30 days.