

# Frito lay company: cracker jack case analysis



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Frito-Lay is worldwide leader in snack manufacturing and marketing. It represented 54 percent of retail sales of snack chips in United States, making it leader in that category. Frito-Lay is division of PepsiCo. Inc and in 1996 represented 31 percent of PepsiCo's net sales and 60 percent of PepsiCo's operating profit (Kerin & Peterson, 2010). Some of popular brands of Frito-Lay are Lay's and Ruffles, Doritos, Tostitos, Potato chips, Cheetos, Sun Chips and Funyuns onion-flavored snacks. During 1990's majority of Frito-Lay's growth was attributed to its low-fat and no-fat snacks such as Baked Lay's potato crisps, Baked Tostitos tortilla chips, and Rold Gold pretzels. Frito-Lay has extensive manufacturing infrastructure with 45 manufacturing plants in 26 states, including world's largest snack food plant in Frankfort, Indiana. It has extensive warehouses and distribution facilities as well with more than 1, 800 in number and 17, 500 salespeople who make 750, 000 sales and delivery calls on approx 350, 000 retail store customers each week (Kerin & Peterson, 2010). It also is one of leading national advertisers in the United States.

Borden Foods' Cracker Jack is one of leading brand in Ready-To-Eat (RTE) caramel popcorn category. Because of Borden's strategic decision to focus its resources on pasta business and grain-meals, which needs significant resource investment, it has decided to divest Cracker Jack and related assets. Frito-Lays' New Ventures Division, which seeks and creates new business platform and products to grow business (Kerin & Peterson, 2010), evaluating purchase of Cracker Jack brand to grow Frito-Lays' business.

Problem Identification

Ready to Eat (RTE) caramel popcorn product category has several different types of competitors; national brand firms, seasonal/specialty firms, regional firms and private label firms. Cracker Jack is national brand and its biggest competing brand is Crunch ' n Munch from International Foods Home Inc. In 1996 dollar sales market share of Cracker Jack was 26% whereas Crunch ' n Munch enjoyed 32% of market share (Kerin & Peterson, 2010). Generally RTE caramel popcorn is viewed as “ undermarketed” category, especially Cracker Jack spent far less in media advertising compared to Crunch ' n Munch. Because of reasons mentioned above and several other reasons Cracker Jack is seen by consumer as a brand which has lost momentum. Frito-Lay has decided to purchase Cracker Jack brand and regaining this momentum is key factor.

#### Identifying the Root Problem Components

Cracker Jack brand has universal awareness, however it's seen as traditional and old fashioned, and less contemporary than Crunch ' n Munch. Although there are several Cracker Jack products such as Cracker Jack Fat Free, Butter Toffee, and Nutty Deluxe, consumer awareness of these is below 50 percent. Although consumers are aware of Cracker Jack brand largely because of its heritage, only 7. 1 percent of U. S. household consumes it primarily because a) they don't think about it as they don't see advertisements b) unavailable where they shop and c) they see it as too expensive and say boxes are not large enough.

Components of root problem which Frito-Lay needs to tackle are premium price of Cracker Jack, extend Cracker jack trademark and revitalize Cracker

Jacks' base business. To do this it needs to expand distribution of Cracker Jack, develop new packaging and flavors (and at same time reduce SKUs which are not popular. It has 32 SKUs), impactful product positioning, increase consumer advertisement and establish price leadership.

## SWOT Analysis

### Strengths:

- Frito-Lay has strong strong-door-delivery sales force.
- Executives are very proactive and detailed in projects they undertake, project Bingo is good example of it.
- Frito-Lay's extensive sales and distribution infrastructure and manufacturing facilities.
- Leading national advertiser in dollars spent and creative execution.
- Frito-Lay's brand name reputation and its strong presence in consumer food business.

### Opportunities:

- Addition of new product category allows Frito-Lay to reach out to new customers for its existing brands.
- Cracker Jack brand equity gives opportunity to Frito-Lay to start selling its existing brand in new markets.
- Extended product line and market share provides Frito-Lay with more negotiation power with retailers.
- Extend Frito-Lay brand presence in vending machines.

### Weaknesses:

- Cracker Jack brand is considered traditional and old fashioned.
- Cracker Jack is premium priced brand and its price has risen by 5 to 6 percent per year since 1993.
- Frito-Lay's inexperience in RTE caramel popcorn product category.
- Negative direct product contribution for year 1994, 1995, 1996 gives negative impression of product

#### Threats:

- Strong competition from International Home Foods, Inc. (Crunch ' n Munch brand)
- Competitors could outbid Frito-Lay to acquire Cracker Jack.
- Increase in health consciousness among consumers could impact Cracker Jack sales, unless consumer perception changes to consider it as low-fat RTE.
- Retailers might not be willing to give shelf space, considering popularity and sales of Crunch ' n Munch.

#### Evaluation of Alternatives

Frito-Lay has three options to expand its growth. First, expand its existing snack business by exploring new eating occasions for its existing or new products. Second, enter new product category by capitalizing on its existing strength. Third, called " Opportunistic acquisitions", where Frito-Lay would acquire related food company specific brands or entire business. Frito-Lay has already penetrated market with its strong brand name, sales and distribution infrastructure and advertisement therefore first option would be stretch and require lot of creative ideas and dollars. Entering new product category is risky due to inexperience in those categories and strong well

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established competition therefore second option has high risks. Acquisition of new brand or company would bring its own challenges such as corporate cultural challenge but will also give head start in entering new product category.

### Recommendation

Considering various options, Frito-Lay should go with third option; acquire brand or entire new business, especially when Borden intends to divest the Cracker Jack Brand, which has very high brand awareness. Frito-Lay should integrate sales and distribution of Cracker Jack with Frito-Lay brands and place Cracker Jack on Salty Snack Aisle. Doing so would send signal to consumers that Cracker Jack is now part of well known brand which is progressive and will be easily accessible to consumers. For first year it should primarily focus on 8-oz Bag-in-Box product so that consumers can relate Cracker Jack with good tasting product which is relatively cheaper. Consumer Advertisement should be done aggressively so that consumers see it and remember to purchase it. For this, Frito-Lay should spend \$22 million in Advertising and Promotion for 8-oz Bag-in-Box. This effort is expected to bring \$83.4 million in sales. It should spend \$15 million in advertisement and promotion of 7-oz Flex Bag, which is expected to bring \$77.1 million of sales. Using this combination of promotional activities, consumers will remember Cracker Jack brand and when they go to purchase it they would have accessibility to 8-oz and 7-oz Cracker Jack bags in same location along with Frito-Lay brands.

To make sure resources are focused on re-establishing Cracker Jack prestige to contemporary consumer base, it should cut down SKUs from 32 to 12. This would enable sales & distribution department of Frito-Lay to use existing infrastructure to distribute Cracker Jack to almost all market segments. Frito-Lay should not purchase manufacturing facility of Cracker Jack brand, rather utilize its own manufacturing facility and extend it to package Cracker Jack brand. This would ensure consistency of machinery, maintain good business relationship with current machine supplier and enable utilization of existing trained workforce.

In second and third year, additional Cracker Jack flavors should be introduced in market and aggressive consumer advertisement should be done in range of \$32 million. Executing these strategies would help growth of Frito-Lay by entering in new consumer product category.