

# [Frito lays chip dip verse vegetable dip essay](https://assignbuster.com/frito-lays-chip-dip-verse-vegetable-dip-essay/)

FRITO LAYS CHIPS \*\*All information provided by professor from Case Study. BACKGROUND AND ENVIRONMENT Frito Lay is a division of PepsiCo, Inc.

They are a nationally recognized leader in the manufacture and marketing of salty snack foods. Brands include Lay’s, Ruffles, Frito’s, Doritos, Tostitos, Cheetos, pretzels and Funyuns. They produce nuts, peanut butter crackers, beef sticks, cookies, snack bars and more. In 1985, sales approached $3 Billion. The majority of dips are sold through supermarkets.

They sell and deliver through a “ front-door store delivery system” in which one person performs the sales and delivery functions. This system allows the products to be closely monitored and restocked, as well as creates a relationship between the sales/delivery person and the supermarket staff. Frito-Lay’s net sales for dips of over $87 million in 1985 amounted to a 290% increase in sales growth from 1981. This success leads the company to a major issue of how the company can be further developed. Officers within the company had two different viewpoints when planning for the future.

They must chose whether they should continue marketing and expanding their chip dips, or grow the new vegetable dip category. Frito Lay has a strong brand name in the chip and dip industry. Due to fierce competition, sales have remained constant while profits have declined. The market for dips is highly fragmented, however approximately 80% of dip sales are by supermarkets. Chip dips are either refrigerated (55%) or shelf-stable (45%).

Frito-Lay was the major competitor in shelf-stable dips, followed by regional chip manufactures however Kraft had begun to enter the cheese-based dip market. These dips were mostly located near snack foods including chips. Among chip dips, sour cream based dips are the most popular and account for 50% of total dip sales. Cheese based dips account for 25% of dip sales, bean and picante dips (10%) and cream cheese based dips account for 15% of dip sales. These dips are most often used with salty snacks including potato chips and corn chips.

Approximately 1/3 of dips are used with vegetables. Vegetable dips are located in produce sections, next to soup mixes, with salad dressings and in snack sections. Most vegetable dips are sold on a regional basis and are local brands. It is estimated that 35% of refrigerated salad dressing is used for vegetable dips (think Ranch! ). No major competitors existed in the vegetable dip market, other than salad dressings which accounted for 25% of vegetable dips. Trends indicated that consumers were becoming more concerned with nutrition, and this could help shift consumers to vegetables and vegetable dips.

Also, no major competitor had introduced a “ Shelf Stable Vegetable Dip”. If Frito Lay chose to market vegetable dips, they may lose some economies of scale by not marketing with chips, and avoiding the “ halo effect” that they currently enjoyed. Competition from Kraft and Campbell Soup has begun making the marketplace more competitive. Until 1983, Frito Lay had not had to conduct in marketing and promotions for their products. Store placement had sufficed. For the most part, dips were promoted with Frito-Lay salty snacks.

This approach allowed for complimentary products to share a marketing budget and campaign. KEY ISSUES: •Grow chip dip line OR vegetable dip line •Chip Dip benefits the sales of chips (Frito Lay sells chips), whereas vegetable dip benefits the sales of vegetables (Frito Lay doesn’t sell vegetables) •Dip competition and marketing efforts have been increasing •Sales stagnant, profits declining Attracting new customers •Types of dip to grow (shelf stable vegetable dip? ) •Allocation of resources (production, distribution and marketing) CALCULATIONS: 1985 Frito Dip Sales: $87, 000, 000 1985 Marketing Expense (VC): $25, 481, 000 1985 G Overhead: $6, 572, 000 1986 Forecasted Sales: $87, 000, 000\*1. 1= $95, 700, 000 Refrigerated Dips Retail Price: $. 07-$. 15/ounce Shelf-Stable Dips Retail Price: $. 13-$.

20/ounce Dip Sales have been increasing 10%/year Frito Lay has 33% market share of salty foodsContribution: Sales – Variable Costs ($87, 000, 000-$25, 481, 000) = $61, 519, 000 Contribution Margin: Contribution/Sales ($61, 519, 000/$87, 000, 000) = 70. 71% Break-Even: Fixed Costs / Contribution Margin ($6, 572, 000/70. 71%) = $9, 294, 300/yr 1985 Mexican Dip Profit Contribution: ($5, 192, 000/$8, 969, 000) = 57. 88% 1985 Cheese Dip Profit Contribution: ($3, 777, 000/$8, 969, 000) = 42.

11% 1986 (forecasted) Mexican Dips Sales Contribution: ($41/$99) = 41. 41% 1986 (forecasted) Cheese Dips Sales Contribution: ($48/$99) = 48. 48% 1986 (forecasted) Sour Cream Dips Sales Contribution: ($10/$99) = 10. 0% 1986 Estimated Total Advertising: $4, 728, 510 1985 Total Advertising $2, 350, 196 Increase in Advertising: ($4, 728, 510-$2, 350, 196) = $2, 378, 314 or 201% Typical Advertising/Sales dip industry ratio: 10% 1985 Advertising/Sales dip ratio: 2. 7% 1986 projected Advertising/sales ratio: ($4, 728, 510/$95, 700, 000) = 4. 94% ANALYSIS: Frito Lay has decided that no matter what route they go, they must increase their marketing budget to maintain their competitive edge.

By doubling their advertising budget, they only have an advertising/sales ratio of less than 5%! With an industry standard A/S ratio of 10%, they remain their competitive advantage. Frito Lays break even point is at $9, 294, 300, or 11% of sales. This means that they are operating with high margins. The fact that sales have remained steady but profitability has decreased is problematic. The introduction of sour-cream based dips into the market along with shifts in buyer preferences seems to indicate that Mexican dip sales are suffering as a result of the introduction of vegetable dips, however gross sales for Frito Lay dips will have increased. The case study does not provide any details on chips and other salty snacks that may suffer as a result of a marketing shift towards vegetable dips.

We do not have the information to know what adverse affects our decision may have. RECOMMENDATIONS: Frito Lay should proceed to market and develop vegetable dips. This new market can create new buyers, and branding should benefit current chips and dips. Frito Lay has established itself in the dip and chip market. Increasing the marketing budget slightly for these brands would have a greater impact on sales.

While some executives felt that vegetable dips could not be marketed with chips, they could easily be marketed alongside other chip dips, and positioned as a “ healthier” choice for those who so desired. It is common for social events to have both chips and dip, as well as vegetables and dip. Frito Lay has an opportunity to take a new, uncompetitive market immediately. They should focus their efforts on developing new vegetable dips to be placed both in produce and snack isles.

“ No major competitor had introduced a shelf-stable dip for vegetables”, and Frito Lay knew that they could develop, manufacture and distribute this new product quickly. Advertising and promotion will be the key to vegetable dip success. By creating dips that can be used for both snacks and vegetables, Frito Lay may be able to expand its product line and increase profitability. Their first sour cream based shelf-stable dip was “ French Onion” flavored, and designed for potato chips. This dip became popular for vegetables, and was used by consumers for both chips and vegetables. Creating more products like this would be beneficial to both chip and veggie product lines.