

## LAY'S POTATO CHIPS: THE CRUNCH IS ON (A)

Looking at a recent trade publication article describing his company's supply chain of all-natural ingredients, Al Carey, CEO of Frito-Lay North America (Frito-Lay), thought, "All that and a bag of chips doesn't change our numbers." Things were going on in the marketplace: One of Carey's core top brands, Lay's potato chips, was suffering, and the lingering effects of the 2008 economic crisis had consumers tightening their purse strings at grocery stores and squeezing businesses' bottom lines.

American families had been loyally crunching on Lay's potato chips since 1932. Over the years, fad diets and healthy-living binges had occasionally resulted in dips in demand for the chips, but Carey was concerned that the current trend in the marketplace was more than a "vogue." This consumer behavior felt different. Since 2009, Frito-Lay had made several efforts to reposition its line of potato chips, including its "Happiness is Simple" and "Lay's Local" marketing campaigns. Both promotions got the word out about what Lay's potato chips had always been: simply made, from three natural ingredients bought from producers close to home. That same year, Lay's introduced versions of some of its chips with 50% less salt, and product development teams started experimenting with designer sodium<sup>1</sup> recipes and capabilities.

Without a doubt, the industry was changing, and Lay's had to understand who and what was shifting to determine how to respond in the long term. To expand growth in the market again, the snack food giant needed to strategize to connect with consumers. Indeed, Indra Nooyi, CEO of PepsiCo, had made it clear she believed the nutrition-wise market should be front and center.<sup>2</sup> But customers were sending mixed messages. They claimed they wanted to eat healthier snacks and lose weight, yet Lay's "Smart Spot" products didn't sell as well as its core chip

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<sup>1</sup> The principle behind the firm's designer sodium initiative was that, because only a small percentage of ingested salt affected taste, the size and shape of the sodium crystals might be modified, perhaps through pulverization, so that less salt would be required, lowering the amount used with no loss of salty taste.

<sup>2</sup> John Seabrook, "Snacks for a Fat Planet: PepsiCo Takes Stock of the Obesity Epidemic," *New Yorker*, May 16, 2011, 54.

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This case is based on public sources except where noted. Mr. Carey's thoughts as written are fictional. It was prepared by Amanda Lozano (MBA '09), Senior Researcher Gerry Yemen, and Assistant Professor Jared D. Harris. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2011 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to [sales@dardenbusinesspublishing.com](mailto:sales@dardenbusinesspublishing.com). No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*

products. Carey and his leadership team had to think about a sustainable model. Was making the billion-dollar brand healthier the right move? Would reducing or removing the amount of salt in Lay's chips—indeed, in all Lay's snack products—be appropriate? Was that what consumers were looking for from their salty snacks? Or would changing the recipe of the great all-American chip cost the company customers?

## **Snack Food Industry**

From the White House to the Food Network, there seemed to be an increased dialogue around food—it was a big topic in conversation, entertainment, and government regulation. For the snack food sector, one of the largest categories in the food and nonalcoholic beverage industry, it meant big business. There was money to be made—particularly in overseas markets, such as eastern Europe and Asia. In the United States, snack food sales annually totaled over \$60 billion. Price, quality, product variety, and distribution affected competition in the industry.

The landscape had changed, and the mere mention of the word *snack* had many shoppers questioning a product's fat, sugar, and sodium content and wondering whether it was healthy. Gone were the days of "I'd like extra butter and salt on my popcorn" for many. In 2000, publisher Frank Lampe and sociologist Paul Ray cofounded Natural Business Communications and Conscious Media, through whose publications they identified and promoted recognition of a growing demographic, Lifestyles of Health and Sustainability (LOHAS), a market segment that strived for a healthier lifestyle and environment. They used words such as "natural," "organic," "whole-grain," "unrefined," "trans-fat-free," "locally grown," "handcrafted," and "wildcrafted." Estimates identified one in four American adults as a LOHAS consumer.<sup>3</sup> The movement started as a ripple that spread to other consumers, who started demanding to know the origin of the food they were buying and what it was made of. In response, some snack food firms shifted from flavoring with table salt to sea salt, used oils that contained lower levels of trans and saturated fats, reduced or eliminated trans fats altogether, and added organic foods to their line of snack offerings.

The LOHAS demographic wasn't the only consumer behavior trend affecting product positioning and market share. The 2008 economic crisis had shoppers more inclined than ever to reach for the less-expensive private-label brands. According to industry watchdog Sally Lyons Wyatt of Symphony IRI Group, when budgets were tight, 45% of consumers switched to store brands.<sup>4</sup> That translated into more marketing and promotions from the large nationally branded foods.

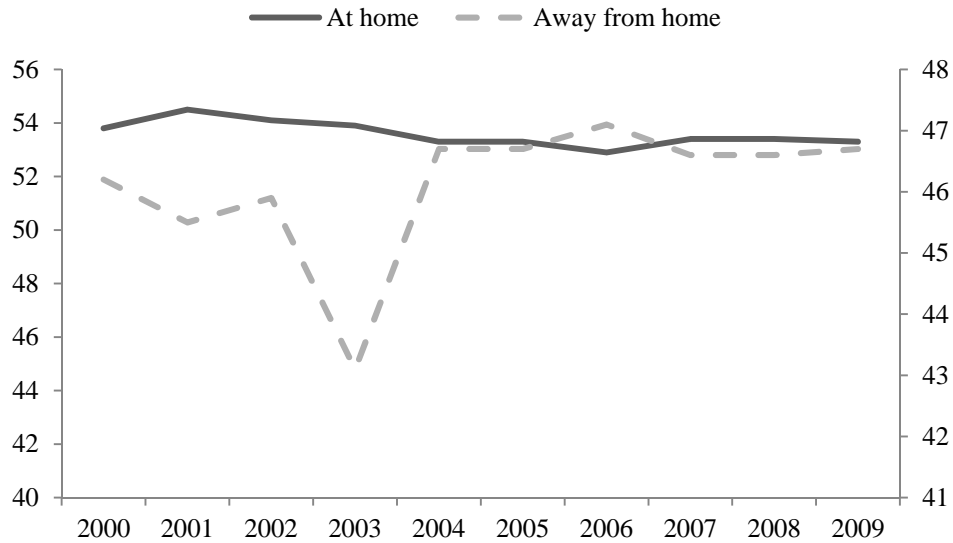
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<sup>3</sup> LOHAS online, "About," <http://www.lohas.com/about> (accessed September 29, 2011).

<sup>4</sup> Sally Lyons Wyatt, "State of the Snack Industry 2010" (slideshow), Symphony IRI Group website, <http://www.symphonyiri.com/Portals/0/SNAXPO-2011.pdf> (accessed April 4, 2011).

At the same time, there was an interesting demographic change occurring—a three-year shift where at-home sales had risen more than away-from-home sales (**Figure 1**). Eating at-home foods on the go was also on the rise, and firms within the industry were adopting more portable snacks to head out the door with consumers.

Figure 1. Percent of total food expenditures as a share of disposable personal income.<sup>5</sup>



Data sources: Standard & Poor’s industry surveys, June 10, 2010, 9, and June 7, 2007, 7.

Several other developments were affecting profit margins industry-wide. Typical costs were for labor, agriculture commodities, packaging and transportation, energy, business taxes, advertising, and the other usual miscellaneous expenses, such as repairs, depreciation, and interest on debt. Unstable gas prices meant fluctuating transportation costs. Bad weather meant poor farm yields and higher crop prices. The price of commodities was also volatile (**Table 1**).

The government had always played a significant role in the food industry, but there was talk of passing legislation to tax less healthy food products. That discussion was new and not well regarded among players in the sector. Yet even with heightened regulations and consumer scrutiny, analysts were optimistic that flexibility and new product developments would satisfy corporate cravings for snack food profits.<sup>6</sup>

<sup>5</sup> The solid line data is assigned to the left axis and the dotted line data is assigned to the right axis.

<sup>6</sup> Standard & Poor’s industry survey, June 10, 2010, 9.

Table 1. U.S. commodities prices, 2008–2010 (in U.S. dollars).

	2008	2009	2010
Potatoes (CWT) <sup>7</sup>	14.34	10.18	10.50
Corn (per bushel)	4.40	3.43	3.51
Salt (per ton)	31.39	36.08	35.00
Sugar (per pound)	0.12	0.12	0.15
Wheat (per bushel)	7.05	5.05	4.97
Corn oil (per pound)	0.49	0.37	0.56
Sunflower oil (per pound)	0.88	0.53	0.60

Data sources: USDA Economic Research Service, USDA Economic Statistics and Market Information Service, and USDA National Agricultural Statistics Service.

### Opening the Bag: Company Background

Frito-Lay North America, based in Plano, Texas, was one of the world's leading snack food companies when it merged with PepsiCo in 1965. With more than 30 brands in its product portfolio and over 99% aided consumer awareness for Lay's, Frito-Lay's activities were highly visible to the general public (see **Exhibit 1** for the firm's top brands). Frito-Lay was led by Al Carey, a University of Maryland MBA who rose through the ranks of the Frito-Lay sales organization.

Frito-Lay played a strong role in the changing portfolio of PepsiCo products. The company's first "green teams" were installed in its plants in 1991, designed to ensure environmental compliance at the plant level. Over the years, the company became an industry leader, winning prestigious recognition such as LEED certification for seven of its Frito-Lay plants and two awards from the U.S. Environmental Protection Agency: Climate Leadership and Energy Star Partner of the Year.

Frito-Lay devoted considerable resources to Elevating the Portfolio (ETP), a project undertaken in 2005 to help Frito-Lay meet the changing needs of its consumers and partners. The ETP project touched every brand, and the Lay's brand was given a lot of attention. That same year, PepsiCo introduced its "Smart Spot" program to help consumers identify healthier options within PepsiCo's entire portfolio. Brands such as Rold Gold, SunChips, and the Baked! line gained in popularity and distribution. Additionally, the introduction of serving-size packages (multipacks for busy families and 100-calorie packs for diet-conscious consumers) sold well.

The "We grow the best snacks on Earth" campaign launched in 2006, featuring Lay's potato chips, Tostitos tortilla chips, and Fritos corn chips. It highlighted the three simple ingredients each chip was made from: potatoes, oil, and salt for the Lay's brand, and corn, oil,

<sup>7</sup> Hundred weight (CWT) is exactly 100 pounds.

and salt for the Tostitos and Fritos brands. The idea was to show consumers that Frito-Lay didn't sell "junk food" but snacks for all types of occasions, lifestyles, and tastes using agricultural products. It wasn't as if Lay's was pretending to sell apples. And the strategy seemed to work, because "Smart Spot"-eligible products (SunChips, Quaker rice cakes, and multipacks) represented approximately 15% of net revenue by 2007.<sup>8</sup> Those products experienced double-digit revenue growth, while the balance of the company's portfolio saw revenues grow in the low single digits.<sup>9</sup>

By the end of 2007, however, shoppers were passing by the Lay's products. Many Frito-Lay executives believed that the LOHAS movement was the major reason and that it would continue to grow in power in the coming years.<sup>10</sup> Some experts compared it to the recycling trend of 10 years earlier. That claim had many grocers across the country devoting special focus to support local agriculture and products. Indeed, the Lay's brand's largest customer channel, Wal-Mart, had embraced the local movement. As Bruce Peterson, Wal-Mart senior vice president of the perishable food division, explained:

Wal-Mart buys more United States agricultural products than any other retailer in the world and we're proud to introduce Salute to America's Farmers as a tribute to our country's growers, underscoring our company-wide commitment to farmers across the United States.<sup>11</sup>

Oftentimes, the shopper—the person who pushed the cart down the aisle and made the buying decisions—was different from the consumer. That gatekeeper was frequently in charge of delivering quality, nutritious, and high-value food to his or her family's pantry. Consumers, who were defined as the people who actually ingested products, became the primary focus of healthy and grown-locally marketing campaigns. Shoppers were instead choosing other, more regional brands of potato chips such as Utz, Wise, Herr's, Cape Cod, and Kettle over the nationally distributed Lay's (see **Table 2** for market shares and financials).

Kettle, a chip manufacturer based in Salem, Oregon, helped bring kettle-cooked (called "hard-bite" in the industry) potato chips into the mainstream and, in contrast to the other regionals, was widely distributed across the country. One of the biggest differences between Kettle and the rest of the chip makers was the type of potato each used. Kettle used Russet Burbank potatoes, while the other firms generally used "chipping" potatoes, of which there were several varieties (Alturas, Dakota Pearl, Atlantic, Marcy, Pike, and Snowden, to name just a few).

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<sup>8</sup> PepsiCo 2007 annual report.

<sup>9</sup> PepsiCo 2006 annual report.

<sup>10</sup> The Hartman Group, *The Hartman Report on Sustainability: Understanding the Consumer Perspective* (report), Spring 2007.

<sup>11</sup> "Wal-Mart Facts," company website, <http://walmartstores.com/FactsNews/NewsRoom/6279.aspx> (accessed April 2, 2009).

Table 2. U.S. chip market share through food, drug, and mass channels.\*

<b>Company</b>	<b>2006 (%)</b>	<b>2007 (%)</b>	<b>2008 (%)</b>	<b>2009 (%)</b>	<b>Revenue (in millions)</b>	<b>Employees</b>
Frito-Lay	50.3	53.6	51.2	58.2	\$3,270.10	38,870
Kettle	-	-	1.5	2.4	\$170.00	550
Private label	6.0	5.9	6.6	6.3	-	-
Utz	4.3	4.6	5.2	3.9	\$166.00	2,290
Wise	3.6	3.2	-	-	\$159.35	600
Cape Cod	1.5	1.6	1.8	2.9	979.84	7,000

\* Figures exclude Wal-Mart and are rounded.

Data sources: *Grocery Headquarters* State of the Industry Almanac, 2006, 2007, 2008, and 2009; and Hoover's Online Company Index, <http://subscriber.hoovers.com/H/company360/overview.html?companyId=7326879> (accessed September 27, 2011).

From a global view, the potato chip segment made up almost 26% of the savory snacks market, which included nuts, seeds, popcorn, and processed snacks.<sup>12</sup> Internationally, the Lay's brand was sold through the PepsiCo International division. Although a highly fragmented market, the top three firms were, in size order, PepsiCo, Chicago-based Kraft Foods, Inc., and Japan-based Calbee, Inc. (**Table 3**).

Table 3. Global savory snack market share.\*

<b>Company</b>	<b>2005 (%)</b>	<b>2007 (%)</b>	<b>2008 (%)</b>	<b>2009 (%)</b>	<b>Revenue (in millions)</b>	<b>Profit Margin (%)</b>	<b>ROA (%)</b>	<b>Employees</b>
PepsiCo	35.2	35.1	31.3	28.5	\$43,232.00	13.8	15.7	203,000
Kraft	2.9	2.8	3.2	3.2	\$40,386.00	7.5	4.7	97,000
Calbee	2.8	2.3	2.4	2.0	\$1,213.60	1.2	1.6	2,864
Other	59.1	59.7	63.2	66.4	-	-	-	-

\* Figures are rounded.

Data sources: Datamonitor, "Industry Profile: Global Savory Snacks," October 2006, 2007, 2008, 2009, and 2010, 13; and Hoover's Online Company Index, <http://subscriber.hoovers.com/H/company360/overview.html?companyId=7326879> (accessed September 27, 2011).

## From Tater to Chip

For decades, Frito-Lay's supplier base was representative of its employees, consumers, retail customers, and communities (launched in 1983, the firm's supplier diversity program had

<sup>12</sup> Datamonitor, "Industry Profile: Global Savory Snacks," October 2010, 11.

brought notable returns to its bottom line ever since).<sup>13</sup> Potato suppliers were farmers who grew crops made specifically for Frito-Lay in nearly every region where Lay's products were sold. The company had a vetting system to ensure that contracted farmers delivered a quality product. Years of research helped Frito-Lay determine which potato varieties allowed for the taste loyal chip eaters expected from the brand. It required suppliers to use specific seeds and chemical applications and refused to use growers who couldn't verify that they had.<sup>14</sup> Lay's used chipping potatoes because they grew into consistently round shapes, were lower in sugar than Russet potatoes, and were available through specific Lay's-approved growers. In contrast, Kettle brand used the Russet Burbank potato (or baking potato) because it was sweeter (it also had varying amounts of sugar content per potato).<sup>15</sup> Two types of potato crops, a fresh crop and a storage crop, were used at Lay's. It took approximately four pounds of potatoes to make one pound of potato chips. And 100 pounds of potatoes produced around 27 pounds of chips.<sup>16</sup>

Seeds were germinated in greenhouses and then planted in farmers' fields. Once mature, the potatoes were delivered to Lay's storage bins or straight to its factories. At each factory, quality control experts inspected potatoes for any defects, such as bruises, discoloration, or odd shapes, before they were used. If potatoes met the grade, they were washed, peeled, sliced, cooked, seasoned, and packaged in bags of varying size. Once potatoes passed inspection, they were carefully stored; the firm dealt with a perishable commodity with a limited shipping window, so storage was key.

Lay's made baked, ridged, regular, and hard-bite (called "Lay's Kettle") varieties. It produced 55 million potato chips an hour—approximately 13 million bags a day and 3.4 billion bags a year in the United States.<sup>17</sup> In addition to potatoes, Frito-Lay was a major purchaser of corn, wheat, salt, corn oil, and sunflower oil.

Frito-Lay had 31 plants across 20 states (see **Exhibit 2** for a map of potato chip plants), and the division employed 48,000 employees throughout North America. In an attempt to deliver the freshest possible products to customers, Lay's utilized localized production systems. Frito-Lay leveraged the skills of more than 22,000 route sales representatives (RSRs) and district sales leaders (DSLs), who delivered Frito-Lay products to stores in their sales areas in the company's 16 different regions—otherwise known as direct store delivery (DSD). DSD included some warehouse distribution for flexibility to get product to first-time stores (Lay's had roughly 1,750 warehouses, distribution centers, and offices).

One of the reasons the DSD distribution method was advantageous was that the company was directly involved and it could see what shoppers were buying (or not buying) and then

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<sup>13</sup> Datamonitor, "Frito-Lay Company Profile," October 1, 2008, 17.

<sup>14</sup> Judith Whipple, "Bridging the Upstream Gap," *Food Logistics*, September 15, 2000.

<sup>15</sup> Jonathan Brinckman, "Kettle Cooks Up National Strategy," *Oregonian*, February 2, 2006.

<sup>16</sup> Husman's Facts & FAQs, [http://www.husmans.com/facts\\_and\\_FAQs.php](http://www.husmans.com/facts_and_FAQs.php) (accessed September 26, 2011).

<sup>17</sup> Janelle Stecklein, "The Chip Trip," *Dallas News* multimedia, [http://www.dallasnews.com/sharedcontent/dws/spe/2005/potato\\_chips/](http://www.dallasnews.com/sharedcontent/dws/spe/2005/potato_chips/) (accessed April 28, 2009).

respond quickly.<sup>18</sup> “The joy of Lay’s is then extended,” Carey said, “because of our deep knowledge of the local consumer.”<sup>19</sup> DSD provided the opportunity to customize merchandising and marketing to local preferences and trends. It also meant that chips were less likely to make it to the shelf crushed, because Frito-Lay employees were more careful to avoid that outcome. And retailers benefited from DSD because they didn’t have to provide employees to stock shelves and put up promotional items.

DSD wasn’t the only distribution avenue Lay’s used. The company had a vendor-managed inventory and delivery (VMI/D) program that put its chips in vending machines at numerous workplaces, hospitals, schools, and highway rest areas—indeed, practically anywhere there was an available electric plug. In the case of VMI/D, it was the vendor who took responsibility for transporting inventory and resupplying machines. In addition, for some products, Lay’s delivered directly from its manufacturing facility to customers’ warehouses.<sup>20</sup>

Frito-Lay’s 16 regions were given a certain measure of autonomy to execute regional programs. They received an annual discretionary budget and guidelines from corporate headquarters. National campaigns, on the other hand, were run through regional vice presidents (RVPs), who in turn coordinated with the directors of sales (DOS) and marketing division managers (MDMs) to ensure that campaigns were properly executed. Given the intricacies of operations in every part of the country, tailoring national campaigns to each area’s unique needs was difficult and extremely costly. As John Compton, CEO of PepsiCo Americas Food, explained:

The beauty of Foods and Snacks is that we’re virtually seed to shelf in every market in which we compete. As an example I’ll use potatoes. We buy over 3.5 million metric tons of potatoes globally. They’re all grown locally in very vastly different climate and growing conditions. We have a potato research lab in Rhinelander, Wisconsin, where we optimize the potato seed so that we can perfectly match that variety with the growing conditions of the agriculture processes, so that we use less water year after year. Then we have a proprietary potato storage process so that the Lay’s chips that you eat anywhere around the world are as fresh as they are on any given day. That’s despite the fact that we only harvest potatoes twice a year. We then manufacture our snacks in plants around the world. They’re primarily distributed through 40,000 direct store delivery routes. We have complete control over our brands from seed to shelf, where the consumer can then find our brands perfectly merchandised for them to choose and they’re optimized financially for great returns. Our direct store delivery system is a key strategic advantage. It gives us unparalleled reach when

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<sup>18</sup> Datamonitor, “Frito-Lay Company Profile,” January 2007, 12.

<sup>19</sup> PepsiCo analyst meeting transcript, March 22, 2010, accessed by LexisNexis FD (Fair Disclosure) Wire.

<sup>20</sup> PepsiCo 2009 annual report, 37.



every consumer and customer is important...DSD also allows us to tailor the assortment.<sup>21</sup>

Each customer channel required different treatment and strategy. Frito-Lay devoted considerable resources to maintaining those relationships. A Lay's employee (or team, for big buyers such as Wal-Mart) worked in-house in a "shopper marketing" role and interfaced with sales and consumer/brand marketing to ensure that stores' needs were being met and that the product was appropriately highlighted. Retailers responded, rating Frito-Lay as the supplier that best served its needs. "Frito-Lay is excellent at creating new and innovative items that appeal to today's consumer," said one retailer. "It has the best overall assortment in the snack category, bar none."<sup>22</sup>

## The Crunch

Many believed that Frito-Lay, which was facing skyrocketing commodity costs, reduced promotional budgets, and the increasing encroachment of regional competitors on its market share, had little room for error. The firm had to revitalize a brand that had been the cornerstone of America's leading snack food company.

In an effort to reposition the brand, Frito-Lay rolled out a marketing campaign called "Lay's Local" in May 2009. Part of it introduced the public to five farmers from different states (California, Florida, Michigan, Maine, and Texas) who grew potatoes that Lay's used in its chips. Dave Skena, VP of potato chip marketing, explained:

While Lay's potato chips have been one of the most popular snacks since they were introduced, what people might not realize is how many communities across the country play a role in the creation of America's favorite potato chip. The truth is we are closer to home than people might expect and we felt it was only fitting to put the spotlight on these people and communities and celebrate the contributions they've made to the Lay's brand.<sup>23</sup>

Customized in-store displays highlighting the role each locality played in making Lay's chips were placed in 40,000 stores nationwide. The goal was to build on the "Happiness is Simple" theme. The Lay's website added a "chip tracker" feature that allowed customers to plug in the number on their chip bag to find out where it was made.

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<sup>21</sup> PepsiCo analyst meeting transcript.

<sup>22</sup> David Orgel, "Suppliers Extend Partnership Role," *Supermarket News*, October 6, 2008.

<sup>23</sup> "Lay's Launches New Marketing Campaign Celebrating Local People, Communities Behind America's Favorite Potato Chips," Frito-Lay press release, May 12, 2009, <http://www.fritolay.com/print/about-us/press-release-20090512.html> (accessed April 5, 2010).

Most major supermarkets carried Frito-Lay products; so did convenience stores and gas stations (grouped together as C&G), clubs (Sam’s and Costco), military bases, and food service businesses (vending machines and public establishments such as universities). Wal-Mart, a mega-retailer based in Bentonville, Arkansas, was Frito-Lay’s largest partner, making up over 12% of its sales.<sup>24</sup> Other partners included Kroger, Meijer, Safeway, SuperValu, HEB, Hannaford’s, Publix, Giant Eagle, Food Lion, Target, Wegmans, and thousands of regional and local retailers. Between the “Happiness is Simple” and “Lay’s Local” marketing efforts, Lay’s gained back some market share—but not without its critics. Some particularly vocal activists and bloggers took the company to task, claiming that the Lay’s Local campaign deceived shoppers.

Over the years, amid the changing tides of consumer needs, Carey had developed several campaigns to lead the company (see **Figure 3** for graphic representation of his company charter). For example, every employee’s activities and contributions were judged by how they could “inspire well-being.” Taking initiative within your role to achieve any of the four tenets was applauded. So if an employee showed how his or her actions affected any of the company’s goals (healthy snacking, best service, conserve and preserve, and inspire greatness) he or she would be rewarded. One employee explained how it worked and affected the culture:

Let’s just say you are a driver and you discover a route from the potato warehouse to the plant that would use less gas: there is an open line of communication that allows you to bring your idea up one level to make that happen. You want to make sure most people in the room know what you are talking about, so you brought people along with your idea; they are on board, so you have a lot of allies in the room. You don’t want to surprise your boss with a huge sales pitch; there is no shock and awe. Instead, you bring your idea to your boss in a collaborative, highly iterative, innovative manner and bounce off each other to raise awareness and support. It builds a communicative culture. There is flat access to senior-level people. The first step is to get your boss on board, not “Your boss takes your idea.” Instead, they take you with them up the line to present your idea.

Figure 3. Frito-Lay charter.



Source: Frito-Lay NA; used with permission.

<sup>24</sup> Wal-Mart 2010 annual report, 80.

Building on its health and wellness options, Frito-Lay charted an aggressive path toward sustainability. Carey championed Lay's efforts to change how it "makes, sells, supports, and moves" its products, with aggressive goals of significantly reducing environmental impact. For example, one of the firm's larger chip plants in Modesto, California, which produced 150 million pounds a year, used rooftop solar panels to convert solar energy into electricity. Within 10 years, the plant had reduced electricity usage by 25%, natural gas usage by 35%, and water usage by 43%. The plant used mirrors to focus the sun on water tubes to generate the steam used to heat the cooking oil. And the potato peels were used to feed local livestock—it sent less than 1% of its waste to the landfill.<sup>25</sup>

Other efforts to be more eco-friendly included delivering some of its chips using a fleet of 13 electric trucks (another 163 were to be added in 2011). Lay's also adopted a plant-based 100% compostable package to try out with its SunChips product. The bag was criticized as being incredibly noisy to open, and some clever critics created a Facebook group called "Sorry But I Can't Hear You Over This SunChips Bag," to which some attributed a slump in SunChips sales.

With over \$13 billion in revenues in 2010, Frito-Lay consistently posted strong profits for its parent company. The Lay's brand enjoyed a majority unit market share nationwide. Carey believed Frito-Lay could hold its own as the company continued to transition from being known as a junk-food company and help fulfill PepsiCo's goal of sustainable growth, called "Performance with Purpose." Raising consumer awareness about what Lay's had always been—locally grown—had been a success. He explained:

You may find this funny, but we have consumers sending in all kinds of positives about this campaign, and some people are saying, "I didn't realize that Lay's is made out of potatoes." Well, I don't know what the hell they thought it was made out of, but it's potatoes. But now they know it. And the simple ingredients—the three simple ingredients—has been a very positive story.<sup>26</sup>

Carey wanted to protect that core and grow. In very short order, his team needed to craft and execute a strategy that would allow for sustained success and growth in the business. Among his leadership team, there had been much discussion surrounding the concept of what Carey called "growing the core." Part of that included making Lay's healthier by reducing the sodium. The brand already had a reduced salt version, Lightly Salted. But product development teams had come up with new technologies to cut the sodium completely and replace it with designer sodium—without losing the traditional Lay's chip flavor. He explained:

The big thing that will happen here is removing the barrier for Boomers and giving them permission to snack. It has to taste great. There is no difference. You

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<sup>25</sup> John Holland, "Snack on This: Frito-Lay Pushes a Wholesome and Nutritious Image for the Kings of Junk Food—Chips and Dips," *Modesto Bee*, August 25, 2010.

<sup>26</sup> PepsiCo analyst meeting transcript.

cannot taste the difference between Lay's today and this product. And I don't think it will be replicated by private brands or by the competition.

Imagine this: a potato chip that tastes great and qualifies for the Clinton AHA alliance for schools. We think we can do that with the technology on potato chips that really has been worked in the European market first. And we think we have ways to do all of this on a potato chip—and imagine getting that product into schools where children can have this product and grow up with it and feel good about eating it, and their parents would too.<sup>27</sup>

The LOHAS megatrend got the ball rolling on changes in consumer behavior. Yet there were still those who resisted or gave little thought to the concept. Lay's chips were already made of three simple ingredients—would changing the recipe increase shoppers' urge to reach for that bag of Lay's? Or would it generate more noise than the SunChips bags?

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<sup>27</sup> PepsiCo analyst meeting transcript.

Exhibit 1

**LAY'S POTATO CHIPS: THE CRUNCH IS ON (A)**

Frito-Lay Brands  
(top brands in bold)

<b>100 Calorie Mini Bites</b>	Miss Vickie's
Baked!	Munchies
Baken-Ets	Munchos
<b>Cheetos</b>	Oh Boy!
Chester's	Quaker
Cracker Jack	Rold Gold
<b>Doritos</b>	Ruffles Dips
El Isleno	Ruffles Potato Chips
Flat Earth	Sabritones
Frito-Lay Dips	Santitas
<b>Fritos Corn Chips</b>	Smartfood Popcorn
Fritos Dips	Smartfood Popcorn Clusters
Funyuns	Stacy's
Gamesa	<b>Sunchips</b>
Grandma's	Tostitos Dips/Salsas
Lay's Dips	<b>Tostitos Tortilla Chips</b>
<b>Lay's Potato Chips</b>	TrueNorth
Maui Style	Variety Packs

Data source: Frito-Lay website, <http://www.fritolay.com/our-snacks/full-list-of-brands.html> (accessed October 6, 2011).

Exhibit 2

**LAY'S POTATO CHIPS: THE CRUNCH IS ON (A)**

Frito-Lay Plants



Source: Frito-Lay NA; used with permission.