Announcements

- Read
  - Messerschmitt Ch 2.3 (38-50)
  - Messerschmitt Ch 3.1-3.3 (59-82)

- **Due THIS Thursday:**
  - Assignment 2
  - For those assigned News Folio
    - First News Folio Article

- **Due Next Thursday:**
  - Business Paper Proposals
Other terms in Chapter 2

- **Explicit knowledge**
  - That which can be written down

- **Tacit Knowledge**
  - That which is can not be written down
  - Example: How to Ride a bicycle.

- **Much of a company’s value is in its knowledge**
  - Patents, documents
  - Tacit knowledge in employee’s heads
Other terms in Chapter 2

- **Knowledge-Creating Company**
  - Create new business knowledge
  - Disseminate knowledge throughout company

- **Knowledge Management Systems**
  - Facilitate this dissemination
  - Often, like a search engine on a company intranet.

- Aside: might a knowledge management system affect the negotiating power of employees?
Chapter 2 Summary

- Porter models are important as a way to evaluate competitive environment and/or internal processes.

- Use Porter strategy terminology in discussing how an industry and companies in the industry compete.
Frito Lay Case
Frito Lay

- **Market:**
  - Salty Snacks

- **Who owns Frito Lay**
  - Pepsico

- **Competitors:**
  - P & G (Pringles)
  - Anheuser Busch (Eagle Snacks)
  - Borden (Wise Chips)
  - Small Regionals

- **Sales Force**
  - 10000 people
  - Drive around in trucks; sell and deliver snacks
Frito Lay

- **Growth**
  - In the 70s, “double digit”
  - Mid 80s - slowed to single digit.
  - Foreign Expansion?
    - Not for Frito-Lay division, because PepsiCo has a separate international snacks div.

- **Good:**
  - Several top brands

- **Bad**
  - Monolithic national approach
Frito-Lay

- **Segmentation**
  - Supermarkets
  - “up/down street”

- **Regionalized Micro-Marketing**
  - Targeted smaller brands to regional customers

- **Hand Held Computer**
  - Small computer for each salesperson to carry around
  - Log sale transaction data.
Frito-Lay

3 stated objectives

- Replace optical scanner system used now
  - IBM will stop supporting it soon
- \( \frac{1}{2} \) hour per day per driver paper-work reduction
- Marketing effectiveness
  - Detailed sales data
    - will help make regional marketing decisions
    - Negotiate with stores for more shelf space
Frito-Lay

- **Cost of Implementation:**
  - Data Center upgrade
    - $1.2 million
  - Machinery in Truck
    - $10000 \times 3000 = $30 million
  - Computers in distribution centers
    - 5-10 million?
  - 45 Systems Development Professionals
    - $70K \times 45 = \sim 3 million

- **TOTAL:** 45-55 million
To have a 10% Rate of Return, what would the benefits per year have to be?

(for simplicity assume these benefits are received every year forever)

~5 million
Break into discussion groups of 3 or 4

- What are the risks the project is facing?

- What is Frito Lay doing to mitigate these risks?

- Does your group think the potential benefits are worth the risks and costs? Why or why not?
Frito Lay

- HHC was a $40+ million project
- What were risks?
- How did they mitigate risks?
- Risk Mgmt
  - Pilot test of technology
  - 3 layer rollout
    - 1) essential systems
    - 2) sales compensation
    - 3) strategic uses of new data (fuzzy)
Action plan

- Region by region?
- All at once?
- Weakest or Strongest region first?
Frito Lay

- HHC deployed to LA area first, a region that won a sales award.
- By the end of the 80’s
  - HHC deployment completed
  - Development of Information Systems to process HHC data to support operations.
- Early 90’s re-org to decentralize decision making to different regions

- 1985
  - Revenue: $2847
  - Profit: $401

- 2004
  - Revenue: $9091
  - Profit: $2366

  - Revenue growth ~ 6% per year on average