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 cannot 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
  - ½ 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 X 3000 = $30 million
  - computers in distribution centers
    - 5-10 million?
  - 45 Systems Development Professionals
    - $70K x 45 = ~3 million
  - TOTAL: 45-55 million

Frito Lay

- 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 80s
  - HHC deployment completed
  - Development of Information Systems to process HHC data to support operations.
  - Early 90s 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