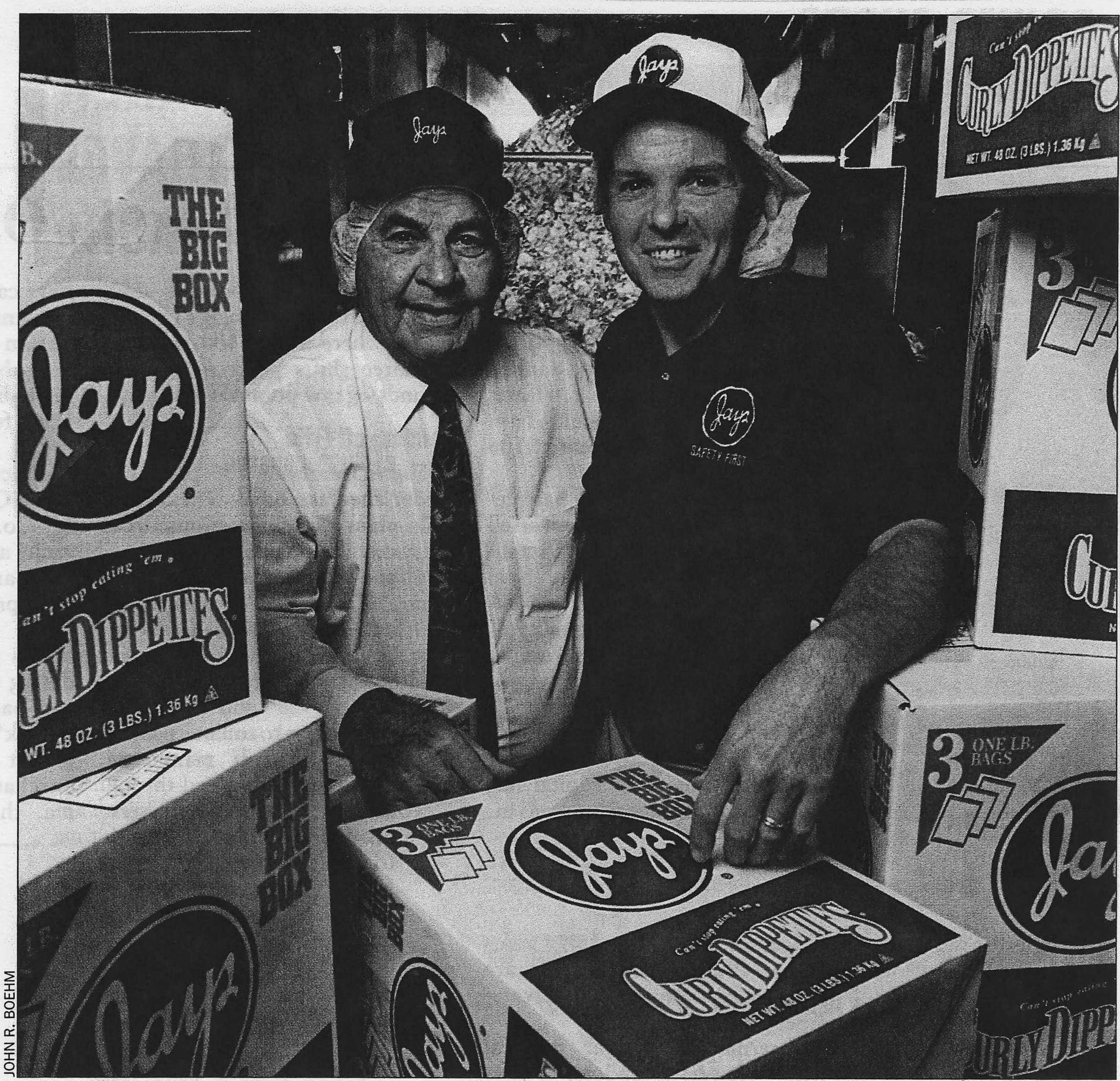


JOHN R. BOEHM

Feeling chipper: *Jays Foods CEO Leonard Japp Jr. and President Thomas E. Howe say they have reversed the losses sustained under Borden's ownership.*

Jays feels crunch

Crisp competition: Chip giant Frito-Lay ups heat on home-grown favorite

By DEBORAH L. COHEN

Jays Foods LLC, a local icon that began a third life after its 1994 divestiture from Borden Inc., isn't having an easy time facing down the behemoth of the chip world.

Although the hometown favorite enjoys a respectable 28% of the local potato chip market, its growth has been eclipsed by Texas-based national giant Frito-Lay Inc., which has doubled its sales here in the last five years to nearly $42.0 million. In contrast, Jays' sales grew 50% to $19.3 million.

Propelled by the introduction of new products such as lower-fat chips, a heavy budget for national advertising, big incentives to retailers and the deep pockets of New York-based parent PepsiCo Inc., Frito is stepping up the pressure on entrenched hometown brands like Jays. The onslaught comes just as supermarket industry consolidation is swallowing up regional grocery store chains such as Dominick's Finer Foods, giving retailers more leverage over their suppliers.

"In general, Jays is facing a pretty strong challenge because, in the face of increasing consolidation, the regional players often lose out," says Jon Hauptman, a senior associate with Barrington-based retail food consulting firm Willard Bishop Consulting Ltd.

Jays made a strong showing in the years following its repurchase from Ohio-based Borden by the Japp family, which founded the brand in 1927 and coined its slogan, "Can't stop eating 'em."

In Chicago-area supermarkets, for example, Jays gained six percentage points to a high of 31% of marketshare in 1996, but has since slipped to 28%. Frito, meanwhile, has boosted its share of the Chicago chip market to more than 60% from 40% five years ago, according to data from Chicago-based market researcher Information Resources Inc.

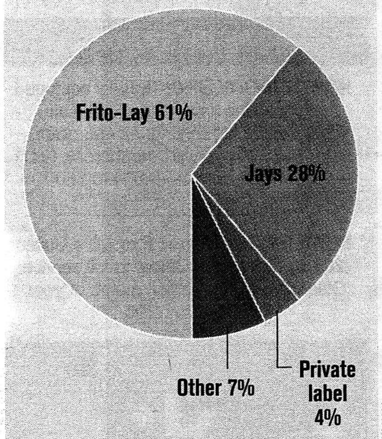
But Jays management contends that marketshare doesn't tell the

See **JAYS** *on Page 70*

Jays: Being profitable is Oke-Doke

IN THE CHIPS

Shares of the $69-million potato chip market in the Chicago area



Note: Data reflect sales through supermarkets with more than $2 million in sales annually
Source: Information Resources Inc.

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JAYS *from Page 3*
whole story.

Under CEO Leonard Japp Jr., a member of the founding family, and President Thomas E. Howe, the company's annual sales have risen 50% to more than $100 million.

More important, Jays' management team says it has reversed losses that were roughly $1 million a month during the final days of Borden's control, and improved lagging product quality.

"We put a great big tourniquet on," says Mr. Japp. "We're still on the comeback."

Indeed, Jays' South Side factory runs at 95% capacity, Mr. Howe says, benefiting from capital improvements Borden pumped in. New management added 250 jobs at the company's single plant, where nearly 400 workers on three shifts process 500,000 pounds of raw potatoes each day.

Fending off Frito

There are about 200 products under the Jays label. The South Side plant makes the company's mainstay chip line as well as popcorn under the Oke-Doke name.

Other salty snacks such as pretzels and tortilla chips are made for Jays by outside manufacturers.

But are Jays' recent moves enough to fend off mammoth Frito?

While other local snack makers have carved specialty niches, Jay remains largely tied to mair stream grocers, from which i gets about half its business. Ad dison-based Seasons' Enterprise Ltd., for example, has built it brand around a reduced-fa product for health food stores while Chicago-based C. J. Vitne & Co. plays to independent such as smaller groceries an bars, and has developed private label products.

The grocery store link be comes more tenuous as consoli dating chains such as Cincin nati-based Kroger Co. and Do minick's new California-base parent Safeway Co. centraliz purchasing decisions. In Califor nia, there are virtually no re gional chip brands; shelves are dominated by Frito and private-label goods.

Supermarkets "want to deal with (fewer) vendors," says Robert Mariano, former CEO of Dominick's. "That's how you keep your costs down."

Retailers are also lured by big incentives from Frito and other food makers of its size. Consumer preferences for variety on grocery shelves "don't seem to be as important as they used to be, particularly when you consider million-dollar rebates from the (food and consumer products) companies," says Phillip Bremser, vice-president of sales for C. J. Vitner.

Targeting hometown crowd

Jays recently lost a big piece of its Indianapolis business with Kroger. "Kroger made some decisions," says Mr. Howe, who contends that Jays has plenty of room to grow in its primary markets of Illinois, Indiana, Michigan and Wisconsin, and it can pick up its share of the food-service channel. "It's not nearly the level we could have over time," he says.

He intends to grow the business by building on the drawing power of the Jays brand with the hometown crowd.

But it can't compete with Frito on marketing muscle: Frito last year spent $55.7 million on national advertising just for its potato chips, according to New York-based Competitive Media Reporting.

Jays executives declined to quantify their marketing budget, but the company's outlays are estimated to be less than $5 million.

Jays instead uses local print ads, joint promotions with companies such as Atlanta-based Coca-Cola Co. and public relations to build interest for new products such as sourdough nugget pretzels. The company's blue-and-white packaging remains largely unchanged since its founding.

"If they don't recognize it's Jays," says Mr. Howe, "they keep walking."

But he acknowledges that Jays wants to spend more on building brand awareness. Adds Dan Raftery, president of Bannockburn-based food consultancy Prime Consulting Group Inc.: "They need to preserve their brand equity with consumers."