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Interview with

Herman W. Lay

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Business Oral History Collection

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Dr. Caruth: This is Dr. Donald Caruth recording for the North Texas State University Business History Collection in another of our series of interviews with selected business leaders. Today I'm interviewing Mr. Herman W. Lay, Chairman of the Executive Committee of Pepsi Co., Inc. The interview is taking place in Dallas, Texas on December 31, 1974. Let me start by asking you to tell me a little bit about yourself.

Mr. Lay: Well, I was born in Charlotte, North Carolina. My father was a salesman for the International Harvester Company, and as a young man he was transferred about to a number of cities. We lived in Charleston, South Carolina, in Columbia, in Florence, and a little town called Blackville, and then he was transferred to Greensville, South Carolina, when I was ten years old; so my memory of the earlier cities is not too vivid. I consider Greenville my home town--where I grew up and went to grade school, high school, and less than two years to Furman University. My father was a very enthusiastic man. He was very ambitious for his son and for his daughter--far more than he was for himself. He did not push me, but he encouraged my working, and I developed the attitude of wanting to. Most everything except my clothes was bought by money that I earned, as was all of my own spending money. At ten years of age I was delivering newspapers, which I did until I was about seventeen. Meanwhile, at one time I had a drink stand in my front yard. It was quite a successful venture until the baseball park nearby moved.

Caruth: You were selling Pepsi Cola ____________________.

Lay: (Laughter) Really selling Pepsi Cola at that time . . . also selling peanuts and popcorn, et cetera. I never dreamed that I would get into such as a permanent vocation. I also hawked drinks through the ball park for a number of years, so as a kid I was able to buy my own bicycle. I had a little "stripped-down" Ford when I was fourteen years old, and I had a regular Ford sedan when I was sixteen or seventeen. Other than the working, the one thing that I enjoyed as an avocation was athletics. I had to be very agile to be able at my size to participate, and the only sports that I could play well were baseball and basketball. I won a scholarship to Furman University in baseball and basketball, but the school was not able to continue to support those programs along with football. So when the scholarship was withdrawn and my privileges to eat at the dormitory were withdrawn, I decided to leave the school for a period of time and try to see the country and possibly the world. But I didn't get to see the world at that time, because I missed a boat in New Orleans headed for Hamburg. But I did see most of the United States. When I came back home I took a business course at a business school. Later, after I took my first permanent job with a farm machinery company as a billing clerk, I took innumerable correspondence courses: advertising, accounting, marketing, also such courses as the Dale Carnegie, and several others (chuckle) whose name I don't even recall. So I did try to recover as best I could the education that I lost by not continuing in college.

Caruth: What were some of the jobs that you had after you left Furman? I recall reading that you worked as a lumber jack at one time.

Lay: During the period that I spent nearly a year traveling the country, I first worked in a sandwich shop for a month in Houston, Texas. I went to Houston for reasons that I didn't even know myself. But I got nervous feet in Houston, having heard of the wheat harvest. So the other kid that was with me and I left . . . hitching rides, riding freight trains, we worked through the wheat harvest all the way into Canada. It was late September before the harvest was over there. Then I went to Washington state for about six weeks. I was really not a lumber jack because I wasn't experienced and really possibly wasn't strong enough. Possibly, I could have developed the skills to be one. I'd like to call myself a former lumber jack, but really I was a water boy (laugh). And then it just got too cold and I wore out on that life and left to spend about six weeks traveling the country--visiting my father's relatives in Oklahoma and Tennessee and my mother's relatives also in Tennessee--following which I returned home to Greenville and started the business course. I worked at a novelty and jewelry shop while I took the business course. I left there to go to Atlanta and worked for a farm machinery company as a billing clerk and as an in-house salesman, waiting on customers who came by the office. I became adept enough with farm machinery so that I could assemble a plow or cultivator like a soldier is trained to assemble a machine gun; but I didn't know the basics of agriculture. My only experience had been in the wheat harvest. I didn't have a farming background, and I became convinced that another type of business was more suitable for me. Meanwhile, the machinery company was getting into financial troubles; it was 1930 and the Depression was getting very difficult. I was able, when I was twenty, to get a position as a salesman with a national firm in the biscuit and cracker business. How I got the job at that age I don't know, because I probably was the youngest salesman of several thousand they had in the United States at that time. I kept that position for about nearly two years and was "laid off" during the time millions of other men and women were getting the same treatment. I think I was as much fired as I was laid off, because it was only the last six months that I had developed any real acumen in selling and marketing a consumer product. But by that time it was too late. Meanwhile, I recall an instance--when I was attending an exhibit the company had at a state fair in Atlanta of their products--that the division manager from St. Louis came in and thought I was helper. When he learned I was a salesman, he was very angry with the Atlanta manager for employing boys. I was blond and weighed about 135 pounds (laugh). That probably had nothing to do with my dismissal. During those very difficult times, I had been a white-collar salesman. I was very proud of the fact and felt that I was qualified. I was determined to get another job as a white-collar salesman. But I didn't. I was able to retain my automobile and took a job that I had previously been offered through the influence of my former boss and had turned down. It was as a delivery salesman for a snack food company in Atlanta, which at the time was in receivership, operating under what we would now call Chapter Eleven in bankruptcy. After a few weeks of training--because I had an automobile and because they felt that I would do my best to pay my bills--the company sent me to Nashville, Tennessee. They were closing the small sales branch office in Nashville that was losing money. I became an independent distributor with a consigned stock of merchandise for which I paid them, less my sales discount, what was sold each week. That was in 1932. The middle Tennessee-southern Kentucky area of the country did not suffer quite so badly during the deep heart of the Depression as many other industrial areas of the country did or as even Atlanta, which had so many branch offices of the national firms. It was tobacco country and . . . an area that had very little heavy industry and very few national concerns. So the business grew a little more rapidly there than it probably would have in other areas of the country, and later it became a matter of how fast we could finance the acquisition of new trucks and the opening of new routes which naturally operated at a loss until enough volume was developed. We were able at the same time to either plow back or save . . . at that time for a young man in a young business . . . rather substantial sums of money. For instance, even with only one route, I was supervising another man in the area who really worked directly for the company; I got an override of his sales. So at the time I was making about $100 a week. I could save $75 (laugh). A hundred dollars a week wouldn't do that today. I mean you'd have a hard time living on $100 a week even as a single guy today. I think that one of the reasons that I saved my money and was so rigid with my expenses and with my personal spending is the memory of those months when I was behind with my board bill; and those months that I traveled the country and sat down around many campfires with the hobos and listened to their stories of poverty and the reasons for their poverty . . . some who had been affluent at times and some, of course, who didn't want any other way of life anyway, but that of the 'bo. We moved our business forward and took over a distributorship in Chattanooga in about 1937. I saw the handwriting on the wall--"Growth." And my little staff did. We saw it with a great feeling of togetherness. Even though I owned the business, we developed a consultative way of life among all the group--the salesmen, the warehousemen. I saw other handwriting on the wall and it said that we had to get into the manufacturing business; that otherwise our distribution area was limited. Secondly, as distributors, our margins were too narrow to achieve . . . to develop a real substantial business. First we went into the popcorn business, because there was no one else in the south that was packaging popcorn. Then I made an arrangement to make peanut butter sandwiches rather than buy them from my supplier. Peanut butter sandwiches at that time required no machinery or equipment. They were all wrapped by hand in cellophane . . . sealed by hand, so it was a matter of teaching women the dexterity to package and put peanut butter on the cracker with a knife and hand wrap and seal the cellophane by heat application. The company that had been supplying me --that I previously worked for directly--after having come out of receivership began to get into financial troubles again, because the management that had been brought in left and formed another company. My former supplier had a number of small factories in the Southeast, and they closed their factories in Birmingham and in Louisville. They began to get into the red and, without putting the business on the block, offered to sell it to me. I did not have the funds but was able to gather together a few friends--almost every single employee of the company . . . and obtain more credit than I deserved from the bank . . . a bank in Nashville, Tennessee . . . and was able to buy the Atlanta business with cash being 50 per cent of the purchase price and a preferred stock being the other 50 per cent. We did not, until later, buy the Jacksonville, Florida plant, which was a good plant. The group from whom I bought the manufacturing business also got into financial difficulty at the Jacksonville plant and we bought it. In fact, we took it over really about a year later. The principal office of the manufacturing company which we bought had some distribution in the Carolinas. Some in Kentucky, Alabama, Florida, and Tennessee. The principal office was in Atlanta, and at that time, which was in late 1939, my family and I moved to Atlanta. The distributing business in Nashville was then managed by one of our former route salesmen.

Caruth: I understand the purchase price of this company was around $60,000.

Lay: Thirty thousand in cash and $30,000 in preferred stock, which was cumulative, as I recall, and had a sinking fund provision. However, we needed more cash than that, because the business needed operating capital. The business was growing and it needed operating capital, not only immediately, but it needed it more every month as the business began to grow rather rapidly. Sixty thousand dollars was, of course, a fair amount of money even in late 1939. The people from whom I purchased the business felt that with the $30,000 and some funds that they had of their own and the income from the preferred stock that they could comfortably live the rest of their lives. In addition, mistakenly, they thought they could continue to make profits from the factory in Jacksonville. They operated the factory really under a license agreement. My company owned the trademarks, but the trademarks were in perpetuity, so it was really in fact their business. But they did not give it the proper attention and ran it into the ground. When we did take it over, we had to pay off a potato bill because the U.S. Marshall had put a padlock on (laugh) the factory door, which as a farmer you can do for non-payment of his own crop.

Caruth: That kind of puts a sudden halt to your business (chuckle).

Lay: We made a settlement with the creditors, because we did not have the funds to pay off the debt owed by the Jacksonville operation. We made a settlement, paying as I recall, all creditors under $100 in full, all over $100 fifty cents on the dollar. Somewhere between a year and a year and a half later, we voluntarily payed off the other 50 per cent in full to every creditor. The word gets around . . . such word gets around. That established our credit (laugh) as being . . . and our integrity. We had no problem in obtaining almost unlimited credit from any national firm anywhere in the United States. It wasn't all just being good fellows. Our pride helped cause us to do it. Possibly we didn't really see what it would mean to the integrity and to the credit of our business, which was still a very small, growing business.

Caruth: How big was your distributorship operation before you bought the chip company?

Lay: We had thirteen salesmen in middle Tennessee, Chattanooga and in the southern Kentucky area. And thirteen salesmen were probably doing about a volume of $300 a week, so that would be $4,000 a week, which would have been about $200,000 a year, which about 15 per cent was manufactured products. At that time we jobbed candies and condiments and macaroni and noodles and we had no restrictions, so we sold everything we could. Otherwise, in the '30's it would have been impossible to have operated a route truck and paid for the vehicle with that small amount of travel and real small warehouse and your other overhead with just snack foods. There wasn't that much volume being eaten, if you had all the business in the area. So we had to develop a snack-type food jobbing business including condiments, candies, and these non-food products such as aspirin and pocket combs, and various sundry.

Caruth: Anything to add to the product line, then.

Lay: Yes, without getting it so broad until you couldn't push the real guts of the business, which was the snack food line.

Caruth: How big was the potato chip company that you bought?

Lay: The first year . . . our first year in business, which would include the distributing business, we did $900,000 and I recall that our profit was $13,000. The company had done the previous year, to my recollection and these figures may not be accurate, $600,000 and the volume was deteriorating.

Caruth: Sound like a pretty good buy for $60,000.

Lay: It was (chuckle). It was really being in the right place at the right time, and that (chuckle) is one of the keys to any success and one of the keys to any . . . it's a matter of some good fortune. It was so fortuitous that I was dismissed as a salesman from the Sunshine Biscuit Company, because that gave me the opportunity to take this job in the snack business which was going up . . . a great opportunity for growth. It gave me the opportunity to go to Nashville and to really go in business for myself. So I was in the right place at the right time at the worst time in the history of our country from an economic standpoint.

Caruth: It's a matter of being able to recognize the opportunity when it comes, isn't it?

Lay: Well, (laugh) possibly . . . possibly so. It might be immodest to say that. I think as much or more than that is . . . if it is the right time, if it is the right opportunity and you do take advantage of it, it's down the road that counts (chuckle) in reality, because you could have been through all of that and still the business could have failed with bad management or with excessive growth or poor organization.

Caruth: What was the name of this chip company?

Lay: The Barrett Food Products Company . . . Barrett Food Products. We changed the name--the corporate name--immediately to H.W. Lay and Company, Inc. Our distributing company being 100 per cent proprietorship was H.W. Lay Distributing Company. At the time we put . . . we formed the corporation of H.W. Lay and Company, moved to Atlanta, acquired the businesses; my personal ownership of the distributing company which was put in was 85 per cent of the business. Within a year it was down to 75 per cent, because we had to get more capital, which all came from individuals that we had met such as our attorneys and friends that we had met mostly in Atlanta. And then there came a time when we had to develop more money, and my personal ownership declined somewhat. Not as much, because I was able to borrow some money personally to also put in the business from a personal standpoint.

Caruth: What were some of the problems that you experienced in getting the company kind of off the ground, because now you've bought a food company whose volume is beginning to deteriorate a little bit. And it's basically for you, too, isn't it, a new endeavor? You're in manufacturing.

Lay: That is . . . that is correct. I would say one of the problems was inexperience in manufacturing, but we were fortunate enough to have a few . . . couple of men around who, one was the mechanic for the trucks, a year later was plant superintendent, and is now vice-president of manufacturing for Frito-Lay--a man with a high school education from a small town. Had he gone on to college--had be been able to go to MIT--he had the conceptual ability and the intellectual capacity to have been an atomic scientist. And that is why, with a limited high school education . . . from an automobile mechanic, he came to be vice-president of manufacturing of the H.W. Lay Company, later the Frito-Lay Company, doing in excess of a half billion dollars of business a year. So it was that type of man that we just found. Then we were able to find a man who had come into the Barrett Company from an accounting firm because he felt something was going to . . . had done their audit . . . he felt something was going to happen to the business. Possibly he could develop a group to buy it. It was never offered to him. Possibly someone else like me would come in; well, I did, and so I found a very . . . there was a capable man right there in the financial area of the business with an accounting background, and so that was fortuitous, and he was . . . between us, we were ingenious enough to be able to have one particular drawer in the desk where we wrote all checks on time, and we mailed them when (laugh) we had enough money in the bank. We were never insolvent, do not . . . don't misunderstand me, but the growth was rather rapid and the cash requirements were great and there was beginning to be some inflation at that time as we were preparing for the war period. The other difficult situation was the credit standing of the Barrett Company; the credit of the company was getting shaky, and we had to overcome that. I expect we overcame it to some extent with our enthusiasm. The fact was in Nashville we had paid our bills. The Jacksonville incident was quite helpful a year later. One of the real problems we had is that the former managers of the business (the Barrett Company)--not the owners, but the managers owned a minority of stock, which the principal owners later bought--had left the company and formed a new company. The trademark of the Barrett Company, which was the oldest snack trademark to my knowledge in the south was Gardner. The trademark was in block letters. The colors were red and white. The trademark of the new company was Gordon in block letters in red and white. We had no recourse in the courts, because when the principal owners of the Barrett Company bought the minority shares of the men who had left them, against the advice of the attorneys, they made a settlement on the trademark and the letters. We instigated proceedings and as a compromise they did change the Gordon to script. At the same time the hurried shopper could hardly tell the difference, and at six or eight feet away it was difficult for anyone except someone who was very knowledgeable to tell the difference. The other difficulty was not just the trademark, but was the fact that the men who had left and formed the Gordon Company were very highly regarded and very strong in their contacts and were good managers. So there was a new competitor that Barrett had never--Barrett being Gardner--had never had in the market, and a very vigorous competitor. While on that subject, the war came on and we began to lose our organization and the opportunity for growth was very limited. In fact, it was nil. There were allocations for everything that we used: cartons, cooking fats, tires, gasoline, trucks. We just sort of got by with bailing wire (laugh) and 'used' cartons that we collected from all over the city and such. We lost a number of our men. I was turned down for the service for problems . . . physical problems that have since been corrected, but we could not fill the demand for our products. We did not have the raw materials or the delivery equipment, the gasoline. So we eliminated the trademark problem overnight, having gotten all of our packaging materials hopefully to run out on a certain day. Overnight we changed everything we had to a brand new trademark. The trademark was Lays. Maybe it was a little ego that it was Lays, which was my name, but there were other reasons too, which I got out of my correspondence courses in advertising. It's a short name; it's easy to remember; it's not . . . a common name. And I thought of fours a lot. There's a four letter name. Here was a four letter name with an apostrophe in it. So no longer did we have the Gardner and the Gordon; we then had the Lay's to stand on its own feet. Our products were in short supply and heavy demand, so the change of the twenty-five year old trademark had no effect on our retailers or consumers, because I'm just repeating again, they would buy anything that they found on the shelf because of the short supply.

Caruth: You had no problem then of an advertising campaign to acquaint people with a new name?

Lay: Yeah, well, it was, of course . . . after the war before we did any advertising, because it was wasteful to advertise during the war period when the demand was greater than we could fill. We did, as I recall, put up a few billboards around Atlanta, but I think that's the only city and possibly a few in Nashville. That's all we did. On the subject of advertising, one of the things that helped really put the Lay trademark on the map and made it a known trademark is we were fortunate enough--no doubt recommended by an advertising agency--to do the first animated television commercial. There was no color then, only black and white. The first animated cartoon-type commercial ever done on T.V. anywhere, and we had by that time created a symbol of the Lay trademark with a potato man with a grin and a little cap with an "L" on it . . . on his . . . on the top of the potato, and we could put legs on him or take them off and do things, and he . . . the potato man played the piano by walking up on his legs and did a jingle. And this was one of the first jingles--not the first--I'm sure . . . the first that I remember. They were so popular with the old Pepsi Cola jingle: 'twice as much fun and a nickel too.' But our jingle went like this--I think I'll get it--'I crackle because I'm crisp. I taste better cause I'm fresh. I'm a pip full of zip. I'm a Lay's potato chip.' And that was played on the piano. And we spent more money than we could really afford, because it caught on, and so we . . . we put the jingle on a television station in every principal city in which we operated. And that was a very fortuitous gimmick at that particular time and in the areas where the Gordon trademark picked up the Gardner image as all being one, and the consumer and even the retailer would forget that there was ever a Gardner and a Gordon; they were all one; that had to be overcome in such a way as we were fortunately able to overcome to establish the other trademark. Then it became good, for us we feel, that the Gardner and the Gordon was considered as one.

Caruth: Because then you had a new ____________________.

Lay: We had a new . . . a trademark, which I feel that particular jingle helped to establish. We did spend more money--being satisfied to make less than our principal competitors were spending--that is more money in advertising and promotion.

Caruth: When was this commercial done?

Lay: I'm going to guess and say '46, but I'd have to look . . . I'd have to look it up.

Caruth: It was just after the . . .

Lay: It was after the war, because there was no use . . . we wouldn't have done it during the war period. After the war when we had . . . although our profits were moderate because we had not been in business very long. The business had . . . previous businesses together had not been very profitable. We were subject to excess profit taxes, which was the average, as I recall--with some allowances--the average of three years; so therefore, our taxation in some years during the war reached as high as 80 per cent of our earnings. We were just caught. I think that excess profits tax as such was proper at that time. We were fighting for our survival, but we were hurt more than, say, the company that had had a long record and in the base period had had a consistent record, so it was a rather difficult taxation situation, but at the same time we hadn't been able to plow back all of our . . . what profits we did have. After the war, we started a very vigorous expansion program. We opened a plant in North Carolina where we had fairly good distribution. We opened an office . . . we opened that in '40. We reopened an office--but not a factory--in Louisville; then we put a factory in Louisville. Then beginning immediately at that time, we began to buy businesses that had . . . second generation chip businesses, distribution systems, sometimes . . . we wouldn't care whether we were making money or not, because we were in the business . . . we knew what it would take to make money, how much volume we would have to do. Many businesses we bought were not manufacturing; they were distribution businesses, because manufacturing facilities were easy to provide; distribution was what we wanted. They were cheaper to buy than to go into a competitive market and develop it cold. And we never stopped buying (chuckle) until we, in 1962, merged with the Frito Company. At that time, we were operating in about thirty-nine states, having gone into the pretzel business with their wide distribution. We had extended our other snack line, with the exception of Frito corn chips, to more than twenty-five states. We had a license with the Frito Company--it was the first license that they issued--for nine states to manufacture Frito corn chips under the Frito Company of Dallas trademark, label, package design, etc. We were limited, not by our contract, but by morality and ethics to the extension not of a corn chip into other areas. We did, in the 50's, buy one of their licenses and the agreement did provide that it could be sold unless the purchasers were insolvent or were . . . was unscrupulous, which would have had to have been proven. The chances are had we not gone with the Frito Company then we may have bought a number of their other licenses . . . licenses, which they had developed a number around the country since the first one was issued to us in 1945.

Caruth: Let me back up for a minute and look at this period--say roughly 1939, 1940--where you've got a facility in Atlanta, and you've got a distributorship in Tennessee, and you're picking up a new plant in Florida. At that point in time were you thinking just in terms of those, let's say, three areas or three facilities?

Lay: I would say that we did not have the vision of developing, in those periods, a national company. Our objective was to be the leader in the market in which we were established and to slowly extend these markets town by town, or even sometimes, when we had the capital, city by city. I can't say, "No," in all honesty, that we had a strong ambition at that period of time of developing a national company. In fact, I think as a matter of objective, at that time, it was just as I earlier stated to be the leader in our markets and to slowly expand, county by county or town by town or city by city, the operation of the company. We didn't have that much vision.

Caruth: Hold what you've got and let it grow as it will sort of.

Lay: Extend it gradually. We were growth minded. It would have been impossible for us just to set these perimeters, and we had no idea of doing that forever, but no . . . the acquisition program had not gotten off the ground at that time.

Caruth: When did you first begin to get the idea that you could begin to grow faster and serve your markets better by acquiring other businesses?

Lay: I think when . . . and really I can't recall the first business that we bought. I did buy into the pretzel business early in the late '40's. We bought a business in West Virginia, and we would just meet people, and many of the people came to us that wanted to sell their distribution system, or their little business or their factory was obsolete. Hand-kettle cooking equipment was a thing of the past. It took automatic, continuous, rather cooking equipment and slicing and washing and packaging--automatic packaging equipment was beginning to come in. And many of these little businesses didn't want to take the risk or didn't feel that they could develop the capital.

Caruth: So there was some of this expansion taking place before the war. Is that right?

Lay: I can't recall that we bought any businesses before the war. I would have to look it up. We may have bought some little distribution system a year . . . to have done so then, we would have had to have been very careful in picking up the allocations for materials and supplies and so forth.

Caruth: But it's after the war . . .

Lay: But after the war, we didn't waste any time. We started out with all vigor. Then our objective changed. Our objective was to cover the entire Southeast. We were thinking then of getting as far up in Indiana as we could, without running into the vigorous competition out of the Chicago area . . . to go up through Virginia--which we did--without getting into the very vigorous competition in New

York and Washington . . . to cover the West and to Missouri, possibly Kansas, Oklahoma. That was our perimeter at that time. We achieved that, and even further, by buying a pretzel company, which had distribution in a much wider area. The company headquarters in Cannon, Ohio, and selling pretzels even into the East . . . selling pretzels to other snack food people who did not manufacture pretzels. That gave us a broader horizon than we had had before.

Caruth: What was the name of this pretzel company?

Lay: Halters . . . Halters Pretzels. The man that we bought the business from was a very close personal . . . had developed to be a very close personal friend, and we bought a few pretzels from him. Although, at that time, it wasn't a salable product in the . . . wasn't a popular product in the Southeast. He didn't want the responsibility of developing the pretzel business, and we paid a rather good price for it, and the man came with us. I guess this developed in the early '50's. I recall that we took a five-week management course put on by the American Management Association, and we roomed together on that course. I think (chuckle) that was when the business . . . the acquisition developed, and that broadened our horizons substantially. Meanwhile, we had gone into North Carolina; I mean, we had later dealed, so to speak, with a cookie business, which was in financial straits in Charlotte, North Carolina . . . built a new factory, which extended their capital beyond their means. We were a little fearful to buy the business. So we made an unusual arrangement with a loan company--money for working capital--and took an option to buy it . . . the option expiring, as I recall, in about two years. I spent a great deal of personal time in Charlotte at that time trying to manage this business. I did not do a good job with management. I was not . . . very smart in the managers I selected. I kept the old manager who was not capable of managing the factory. Our sales problem was not too great, but it was the management of a new plant with a lot of bulk in the equipment and a lot of quality problems, a lot of people problems, and we selected a new manager and he failed. Then I began to . . . my health began to get in a little bit difficult condition. We gave up the management contract, took our loss on the loan--most of it as I recall. Subsequently, someone else already in the baking business bought it and made a success out of it. That chagrined me no end (laugh). At that time we felt that we had a momentum going that we might well cash in our chips.

Caruth: This is what, '48, '49?

Lay: It was '49, yes, 1949. We might well cash in our chips. Meanwhile, the ulcers, which I had suffered from for sixteen or seventeen years became almost unbearable, and I went to Mayo's looking for Dr. Alvarez. He was out of town, but I found another internist. I met a surgeon that was doing this operation called a stomach dissection for ulcers. It was rather rare at that time. He had done the operation just previously for one of the Roosevelt's--for President Roosevelt's son. It was very successful. There was much debate at that time in medical circles about the operation at all. There were other techniques that were used, but I had the operation. My weight dropped to 120 pounds for more than a year, and that is the period of time when we decided that we might cash in our chips. We negotiated with one or two companies and came very close to selling to one company . . . one or two of our ____________________ at that time and our attorney, who was also a stockholder and a close friend and a good business adviser, were negotiating with the company, which was a semi-national company in the biscuit and bread business . . .

Caruth: Which company . . .

Lay: Cake and bread company--Continential Baking now owned by . . . now owned by IT&T. In fact, it has been owned by IT&T now for a number of years. The negotiations were very pleasant. Their stock was listed on the New York Stock Exchange. At that time we had preferred stock, as I recall, that convertible, preferred stock that we had sold to provide additional capital for expansion. The amount, as I recall, was $300,000. We came to terms in general. A lot of things would have had to be worked out. And then at the table the president of Continental Baking said, "Now, you know our stock is depressed in this market. It's selling for blank dollars per share. We don't think that's the fair market value, so this trade that we're talking about will be at the figure . . . "--I vaguely recall $33 a share, which was $5 or $6 over. We asked for a conference and conferred for about two minutes. We were being taken as Georgia country boys (laughter). We may have been unsophisticated, but not that unsophisticated, and we decided, at any price, that that deal was over-done. We never negotiated with anyone else. My health began to get better, my strength began to come back, and my staff . . . they all had returned . . . had returned several years from the service. They felt we had much larger horizons than we had been thinking about. And let's take this business and go. We have no financial problems. We have excellent credit. We have the confidence, we think, of many people in the business that would one-at-a time want to sell to us in contiguous areas. We had the finances to open new markets--New Orleans being one, which was very expensive to open a market highly competitive such as New Orleans was at that time and to plan to put a factory in it later. First we went to Baton Rouge. Both of those were very expensive, but we had then developed the credit and the financial strength to spend the money to develop markets without the necessity of acquisition. So, from that day on we forgot any . . . we abandoned any thought of selling our business. That doesn't mean that we didn't talk to people, because by then we were getting approached by . . . I could name almost anyone in the country--even by oil companies--because we . . . we had then bought a major snack food company in the Midwest, who had a pretzel company with almost national distribution, which we put with our pretzel company giving us then a factory on the West Coast--one in St. Louis, and one in the East in Ohio, which we would have . . . might have eventually moved to . . . further in to the East. So we were a sought-after company, and some mighty attractive offers were made, but I think the criteria we used in turning so many of them down--they were fine companies, fine people--offered us ____________________ to their organization, board membership of large companies, and such. Who can grow the faster? Can we grow faster by ourselves, or will the combined grow slower. So if we're going to grow faster than the major company is going to grow--if we are ever going to merge--why not wait until we had a level growth. Otherwise, we were sacrificing growth, appreciation of . . . of the securities held by stockholders, and we had sold a public issue by that time of common stock during a depressed time of the market. We began to buy in our preferred stock at just particularly on the market. Later, when . . . as we were buying in and the price to the stock market itself . . . I can't recall the year recovered and it got to par we just called it. There was a call provision in it at par because it was convertible. But our common had not reached the point where it was a profitable conversion on the part of the owner of the preferred stock.

Caruth: Your first public offering was when--early '50's?

Lay: It was the . . . I think the first preferred offering was the early '50's. I can get . . . we can get those dates. And the common stock offering at which . . . almost at the same time we called the preferred was in the early '50's--maybe '54, '55.

Caruth: Approximately how large was the company in this period--1949, 1950?

Lay: About $50,000,000 as I recall. I'll have available figures . . . I just ran across them the other day going through an old briefcase, and I will give you some of those old figures dating back to 1940. I don't believe . . . the '39 figures were not there for some reason. As I quoted awhile ago, $900,000 and $13,000 sales. It was still not a big business--don't misunderstand me--but with the major population centers of the United States open for growth and expansion, which was one of the reasons so many of the major companies were attracted to us . . . our growth record, our earnings record, our management staff.

Caruth: How did you happen to become the licensee of the Frito Company?

Lay: We didn't have a research staff of any kind at that time. We played around with a product, and we didn't make a good product. We bought products from other people who . . . out of Texas mainly,--I think only Texas--possibly one in Tennessee somewhere, and they did not develop the consistent quality of the Frito Company. So, I approached them directly and told them that I felt that they had a product that in time would merit national distribution. It would be slow in the non-corn eating areas--the areas that were not, so-to-speak, influenced by, let us say, the Mexican influence or the Californian influence, and that, in my opinion, would take untold sums of money to do that and why not consider a licensing arrangement. We had full distribution in nine states at that time, and there was no overlap at all. They came out of Oklahoma to meet us in Missouri -- the Frito Company operation did. They came out of some areas of Arkansas to meet us. There was no overlap. And they became convinced that the licensing idea was a good idea. We got together with their attorneys and our attorneys and I. The head of the Frito Company at that time was a man of . . . it wasn't his nature too much to want to sit and bargain and to discuss, give and take; so, I guess, we did have a little bit of advantage in the situation that we had two on one, because (chuckle) I participated in the discussions at least so closely if I weren't together with his lawyers at all times, and we wrote what we thought was a franchise agreement that we could live with and that the Frito Company might well use, if they wished to go out--which they did, almost immediately. They began to license other areas of the country--some of which were not successful, some of which were quite often dependent upon the business ability of the man or the group that they franchised, or the area sometimes was important. We looked at this license . . . later on, it became rather onerous, because of the restrictive nature of it to the nine states when we were in twenty-five with snack line and going . . . trying to make the whole country some day. But at that time, it was, I think, most like buying a company in a new market was--so often cheaper over a long period of time than to open it up cold doing $50 a week or $100 a week your first week on a route truck, which would lose $200 a week or something like that. It was cheaper for us without a substantial . . . we had begun the development of a . . . of a technological staff, laboratories, and so forth . . . research is the word I'm trying to think of. It would have taken us some time . . . equipment had to be handmade . . . was not available, and the license agreement, but we took the Frito Company's equipment developed over many years of time starting in 1932. They were good craftsmen. They had all the know-how. The royalty under the agreement was peanuts compared to the cost it would have been for us to get in the business. Secondly, Frito's corn chips were getting more popular in the Southwest, and as people moved about, the word began . . . the name . . . the trademark began to get known in areas where they didn't operate, and where we did operate. And it was much easier, also to go into that trademark than it would have been under a Lay's corn chip or to have coined a new name that wouldn't have conflicted with Frito's.

Caruth: Oh, I see.

Lay: I'd say that was the reasoning behind the license agreement. There were times when in the '50's when we . . . and particularly in the late '60's--I mean the late '50's and up until the time we made the merger with the Frito Company . . . there were times when we almost regretted having made the agreement because of the restriction on it and the growing popularity of corn chips, because competition had entered the market and yet, now we look back again, possibly we would have not had the close relationship with the Frito Company that we would have developed a merger had we not had the license.

Caruth: So again . . . an opportunity.

Lay: Yeah, an opportunity. That's right.

Caruth: What sort of man was Elmer Doolin?

Lay: Elmer was the man that I said felt more or less dislike for bargaining and negotiation. He was a man of . . . a very quiet kind. I feel that he was, in many respects, a very timid man. He had an extremely strong secretary who shielded him--who really conducted the most important business, but a great deal of . . . she depended a great deal too--had a great confidence in the attorney who I would say in the main made the decisions as to the terms of the franchise or license agreement more so than Mr. Doolin did. Now don't misunderstand me; the decision to go the license route--to license the Lay Company was Mr. Doolin's, no doubt with the acquiescence of his brother, who handled the manufacturing in part, but had the responsibility for development of all the machinery and equipment, which was all designed and built by the Frito Company in their own machine shops. He had total charge of that and was very competent in that particular area. Before Elmer Doolin died, the two brothers broke up. Whether over business policy, family, or personally, I have never made many . . . I have never made any inquiries and I don't know all the . . . I don't know the real reason. His brother did go into a competitive corn chip business here, employed a few people from the Frito Company and the business failed. Mr. Doolin's health began to get difficult, and he brought in a man--a very competent man in the investment banking business who had helped him with his over-the-counter stock offer, which they did--as his number one man. It wasn't too long after that--he had had a previous heart attack--that Doolin died. So the merger of Frito and Lay was after Elmer Doolin had passed away some year or two years or something on that order. However, during his life-time, we conceived the idea of a . . . and Mr. Williamson had just gotten here . . . of a three-way merger. A major snack company based in Detroit with operations in the Great Lake area and in Chicago and in Cleveland--an old trademark, one of the new era.

Caruth: Which company was this?

Lay: New Era--totally owned by two . . . by the families of two men who had built the business from total scratch. One of the earliest companies and one of the earliest trademarks. We three companies--the Frito Company, the Lay Company, and the New Era trademark--the firm name was Nickolay Dancey--developed the idea of putting the three companies together and later looking for a major West Coast company and going for quick national distribution. We employed a major national consulting firm to make a study. The study was very favorable to all three companies. The concept, according to the study, was very well thought out. The terms financial-wise, of the merger, I don't think were gone into in detail. I can't exactly recall. However, without my knowledge they developed an organization chart, and that chart blew the deal.

Caruth: It seems that if they were going to develop one, they would involve you in that.

Lay: That's right. It blew the deal, in my opinion. Later, the Frito Company did buy an exchange of stock in the Nickolay Dancey Company, which I thought . . . they did in all propriety. There was no implied obligation; there were no rules for the future layout. In fact, there couldn't very well be, and so . . . I don't mean to imply they broke off the deal because they thought they'd rather buy New Era. I'm convinced that was not the case, because Mr. Doolin was not . . . was a man of too much integrity to have . . . and John D. Williamson was, too, to have countenanced that.

Caruth: As I recall Nickolay Dancey became a division of the Frito Company.

Lay: Exactly. That's right. I think one of the motivating influences to . . . for the Frito Company under the direction of John D. Williamson to get with us . . . I think it was a little bit two-fold. And, he saw that our organization was younger . . . had built a business without a strong trade-mark like Frito's Corn Chips, and like Cheetos were getting

. . . puffs were getting to be. Secondly, we had bought their Virginia, Maryland, and Washington licenses, so we were negotiating with their New York--New England--licensee or at least, New York's licensee, and we were facing the possibility . . . the probability of a head-on confrontation. Other successful licensees might well be in the future as New York did . . . get Lay and Frito into a bidding contest. Mr. Williamson didn't like that. We wouldn't have liked that. As a result, in a way, that developed a lot of compromise, one being that the younger organization moved to Dallas rather than the older people moved to . . . to Atlanta. The facilities in Exchange Park here where the Frito Company had their corporate headquarters was better. Dallas is more central to the United States than Atlanta. Travel is good; it was better from here than from the other. Secondly, Dallas was closer to the West Coast where the Frito Company in Southern California had a strong operation. So it made sense to move to Dallas, which was a sacrifice on one hand on our people, but at the same time it made sense for all of those reasons. The table of organization, to begin with, was a verbal time arrangement for Mr. Williamson to be Chairman and Chief Executive Officer of the Company and me to be President--him to be succeeded by me as Chief Executive Officer. He was to remain as Chairman; Mr. Tanner would become President.

The creation of a new title--which was very unusual at that time--Chairman of the Executive Committee and Chief Executive Officer of the Company was followed exactly on the verbal time table as agreed upon by Mr. Williamson and me and our respective staffs.

Caruth: That means you had a lot of faith in each other.

Lay: We did, and the faith was justified in every way.

Caruth: Who sought whom out? Did Williamson seek you out?

Lay: The word was left here. We were available . . . had been sometime prior, and I can't recall how much . . . how long prior to the . . . to the merger, but the word, either personally--and I can't recall--or through mutual friends that we were available to discuss such a merger on a moments notice, and after a period of reply the . . . I mean a period of time the reply came back from Mr. Williamson that he thought it was now an appropriate time for us to have some exploratory conversations.

Caruth: Tell me a little bit about what goes on when you're exploring the possibility of a merger and the kind of things that are discussed.

Lay: Well, I guess, usually you look at the . . . the growth and the marketing aspects first--the manufacturing facilities, the things that are . . . that go to make up the future of a company together. I think that's the first thing that I look at. The fit of a company, where by virtue of a merger you will have a faster growing--stronger, less vulnerable--operation. I think that's first. Secondly, you must take into consideration the synergism of the people--where are they going to stand in your board composition, your chief executive; those people who will . . . strong in one company, but will not have the same position in the combined companies. You can't have two purchasing agents; you can't have two sets of attorneys and . . . but the . . . the attorneys and purchasing, those things are a little bit down the list. I think the number three thing is the terms (laughter) of the merger or the acquisition. You're thinking about that all the time and you know that your . . . the people that you're undergoing discussions with . . . they've got that right at the top of their head, but I find it more appropriate to develop an understanding about the basics, the growth, the future of the company and the people and the organization. Even though every hour you're thinking about what kind of deal we're going to make, don't get to the deal until you . . . useless to do that . . . if you make a deal only on dollars and cents or values of securities, quite often you've got a bad deal and there's no use . . . you break down; you break off; you lose it.

Caruth: If the price is right . . .

Lay: If the price is, yeah . . . if everything else is right, then you start to make a fair and equitable deal. In many instances you try to make . . . in the Frito Company and the Lay Company . . . in that deal we tried to make as even a deal as we thought the respective strengths of the companies would warrant--the market value, the book value, not too much on the book value, but the earnings and no acquisition situation whatsoever--in that particular deal. Now, if you're acquiring, I guess the seller is going to try to hammer out the best margin that he possibly can. The buyer is going to buy on the best terms that he can, but in this particular Frito and Lay deal, it was a matter of what right, fair and equitable to the stockholders of both companies when a pure merger--and you don't have really too many pure mergers develop. I would say this is one, if there ever was one. Then the last thing, of course, is your general counsel --who's going to be our auditing firm, and sometimes you swap out and compromise and you discuss and some people have personal reasons that they'd be horrified to . . . to lose their . . . to change accountants, so you ____________________ those things in a pure merger back and forth. In fact, that happened in the Pepsi Cola merger, the same identical give-and-take and compromise as to auditors, fair counsel and many such things as to philosophy--philosophy of conflict or of interests--those things need to be discussed and agreed upon also. But usually, I'd say this, that in the . . . in those areas in the Frito and the Lay merger, the best decisions were made in every one although a number of them were compromises, give and take, but they just turned out to be the best. I would say the same thing in the Pepsi Cola merger. They lost their auditors--Lay lost their auditors. The auditors for the Frito Company now represent the whole Pepsi Cola worldwide. The Frito Company lost their attorneys. The Lay Company . . . the Frito-Lay Company, until the time of the merger with Pepsi Cola, retained as general counsel for the company the Atlanta law firm who had represented the Lay Company since 1939. It required a direct wire--a direct telephone line, just a straight three-digit dial telephone line--because of all of the work. But, after all, only two hours from Dallas here, and we are a major operation between Dallas to Atlanta there; so it worked out very, very well. It was quite difficult for the Atlanta law firm to represent the worldwide Pepsico Company, which name was coined as the firm name of the combined Frito-Lay and Pepsi Cola, became Pepsico, Inc. So the Atlanta firm continued to represent the Frito-Lay Division. Pepsi Cola had in-house counsel of which I had very substantial confidence in. That seemed to work out for the best too. It wouldn't dain to be critical of the firm that . . . the auditing firm that represented Pepsi Cola, but profit planning was not a part of their way of life at Pepsi Cola. The four-inch thick budget was prepared once a year, but you couldn't guide the business by that subject. In fact, it was a little difficult for the chief executive officers to sometimes understand. And we were used to working with Arthur Young in the development of budget and procedures. Our computerization was far ahead of Pepsi Cola. Their computers were more or less adding machines. So it seems that, in spite of the give and take, we got the best strengths in all of the areas of compromise in both of these situations. Of course, other companies acquired by Frito-Lay after it became a single entity and by Pepsico, naturally the counsel and the auditors and many consultants and so forth were . . . the responsibilities were taken over by the parent company in each instance.

Caruth: H.W. Lay merged with Frito, in what . . . '61?

Lay: Two.

Caruth: Sixty-two . . . in that period of time. And this gave you, for the first time, this nation-wide distribution?

Lay: Gave us very near nation-wide distribution. In fact, in some products it was nation-wide distribution. As I recall, we had fourteen potato chip trademarks.

Caruth: That's quite a large . . .

Lay: Quite a lot. The predominant trademark, of course, being the Lay mark. We had several cheese puffs marks. The Lay Company had one called Cornet. Frito-Lay had Cheetos. Some of the other companies had others which were being phased out. There were one . . . there were the Roll Gold Pretzels, which was the last pretzel we bought when we bought the Red Dot Company. We had some halters. The Frito Company had Frito brand pretzels. Some of their divisions had others. It took several years, but took very little time to go back . . . it took very little or no time to develop a single trademark in every item, every product line, except potato chips. Some of the brands were as old as thirty-odd years--some of them very, very strong, very entrenched, very expensive. It would have been imprudent to have spent the money to have washed fourteen trademarks out over night. So, it was one at a time, and it cost money to do it, and in some instances, we lost prestige in the market. We lost business in the market. But all the other advantages in a single trademark throughout the company far out-weighed the cost which we took part of year by year by year. In the latter year or two, I think, we hastened it, because in . . . we became more adept and we became more anxious to hurry along with the program of a single national trademark.

Caruth: What led to the merger with Pepsi Cola?

Lay: There again, after the merger of Frito and Lay, we were deluged even more so by the major national companies. There again, I even say oil companies, which didn't make sense to us, wouldn't make sense today . . . but to merge. We'd been down on the New York Stock Exchange, which didn't strengthen, I think, our image. It gave more security to our stockholders, because their securities with Frito-Lay were more readily tradeable at that time in the big auction markets of the New York Stock Exchange added some prestige. It made the stockholders who wanted to diversify their holdings . . . could more easily trade. More financial institutions ____________________ being restricted could then buy securities as an investment because it was listed on the New York Stock Exchange. Alright. That was more or less preliminary, I would say, to the reasons for the merger of Pepsi Cola and Frito-Lay. We called, and also I'll go back and say that that was another one of the reasons for the merger of Frito with Lay. There were so many obvious reasons, but another important one. A number of the major food chains--I mean food companies who had had their eye on the snack business for several years--had even tried to acquire the Lay Company or to acquire the Frito Company were also . . . had also gone in the business of acquiring companies. Some of them major, regional companies. Among them being Sunshine Biscuits, Delmonte, W.R. Grace, General Mills, Pet Milk, Fairmont Foods--all buying major companies, not the little operator in a small town. And therefore, we, as Frito and Lay, were competing with firms with far more resources than we had--far bigger research staffs--and so there was one step in the strengthening of the financial structure of the companies when Frito and Lay went together. Now, back again to the Pepsi Cola. When we had bought in '59, I believe, the Red Dot Company, which included the Roll Gold Pretzel--that is our number . . . our only trademark in Pretzels now in Roll Gold--we inherited a little joint venture in Germany from the Red Dot Company. Coincidently, I had met the man on a personal tour in Germany and introduced him to the head of Red Dot, and I didn't make a deal, but the Red Dot man did on a joint venture basis. We inherited that, and we saw a considerable future. Then the Lay Company--the Frito-Lay Company--shortly after made a joint venture for a potato chip company . . . in England they call them crisps, not chips--chips are french fries . . . on a joint venture basis. So, that wetted our appetite to go international in the snack food business. We couldn't wait to get to Mexico and other areas of South America.

Interviewer: Dr. Donald Caruth

Place of Interview: Dallas, Texas Date: February 20, 1975

Caruth: This is Dr. Donald Caruth recording for the North Texas State University Business History Collection. Today I'm continuing my interview with Mr. Herman W. Lay, Chairman of the Executive Committee Pepsico, Inc. The interview is taking place in Dallas, Texas, on February 20, 1975.

Lay: We felt that the joint venture in Germany we inherited--the purchase of Red Dot--had considerable promise. We later--while the Frito entity, before the Pepsi Cola merger--entered into another joint venture in England. The company was already established, but doing very poorly. We felt the competition was not so strong that we could not carve out a place in the market--a strong place in the market. Secondly, we wanted to introduce corn snacks, such as Frito's Corn Chips and others. We employed a man experienced in foreign marketing to head up this expansion program feeling that we would . . . when these . . . after these two countries were going well that we would expand into other areas. Really, the principal responsibility seemed to fall on me. Over a period of time both ventures proved to be rather unsuccessful. One reason in England is that one of the world's major companies, with unlimited funds, decided to enter the snack business in England. And over a period of two years made an investment estimated at $30,000,000, and we could not grow that fast.

Caruth: Which company was this?

Lay: Imperial Tobacco, which is one . . . is a worldwide company headquartered, domiciled in England with a listed subsidiary in Canada, doing business in almost the total Commonwealth, and I would say rather strong in most every foreign . . . most every country around the world, except the United States. And that would have required us to have made substantial investment in England. Our joint venture partner, although from a rather well-to-do family could no way match that investment; therefore, he became disenchanted because he would have had to have gone to a very minority position. We later sold the business, after the merger to Pepsico, to a major English food company at a nice profit, and we were glad to get out. The joint venture we inherited in England (Germany-editor) was a very small company, but there again the competition was not too strong, but it was necessary that we build new plants and invest in new equipment. Secondly, that we change the distribution method of the business from the wholesaler to direct truck to store operation. There again, our joint venture partner who had little or no funds would have been diluted to a very small interest in the business; this he went along with initially; however, later he met a major food company in England . . . I mean in Germany . . . the largest biscuit company in Germany and one of the largest in all of Europe doing business in several countries in the common market. His proposal--that we enter into a three-way joint venture. We didn't like that type of set-up, but we went along with it for a time. Since he was a German--although a fine man and a very fair man--the German influence became rather predominant in the decision-making and management of the business, although it was growing very fast. Such a minority interest did not appeal to our company. This was after Pepsico, our total company. We didn't really have the organization to develop as we had earlier thought. We hadn't developed the right organization to expand abroad, so we sold that company to the German . . . our interest to the German Biscuit Company. We sold it at a profit, and we were glad to get out, but then we had not returned to the market. But now to get to Pepsi Cola, and some of the reasons why we selected Pepsi Cola instead of many of the other national companies who had approached us as I mentioned earlier. Pepsi Cola's progress for the past seven or eight years since coming with us . . . their progress and growth had been rather flat. The espirit de corp, oh we felt, was something to be desired. Some of their management techniques we felt were not necessarily obsolete, but were not . . . we think utilizing the so-called scientific management which we had . . . were trying to utilize in the Frito-Lay Company. Their data processing activity was mainly adding and subtracting figures. Their information system to their top management comprised mainly a two-inch thick budget prepared each year for management, which the ordinary executive or group of executives unless they had come strictly through . . . from an accounting background was very difficult to interpret and utilize as a tool for management. Subsequent to this flat seven years which ended of flatness about two years before our merger, the company . . . the board of directors elected the president and chief executive officer to the position of chairman of the board and brought a young man—who had been in charge of the international division and who had made substantial progress with Pepsi Cola--was brought in as president and chief executive officer. As they were doing business in that time in excess of one hundred countries, we felt that it was good for Pepsi Cola in the fact that in view of their flatness, in view of their lack of any appreciable ownership by management or by the board that they were vulnerable during that period of time to the take over. They felt the same.

Caruth: Was this a case of both Frito-Lay and Pepsi Cola looking for somebody to merge with jointly?

Lay: Exactly. We were looking for a company with younger management, or with the philosophy of bringing in a continuity of younger management, because after our . . . after all, within eight or nine years the Frito-Lay group that comprised the top executive management would be on the verge of retirement and since that man . . . since that time everyone of the senior executives have officially, technically retired with the exception of one, and he's only part . . . he's only on a part-time basis. Even I have technically resigned, although I spend a fair amount of my time in the interest of the company in the position of Chairman of the Executive Committee and with special assignments which I do for the company from time to time. That was one attraction of Pepsi Cola. The second attraction . . . or another attraction is the fact that we felt that they could provide the organization to hasten the expansion abroad, which we felt were timely. We were in the right place at the right time then. Another reason was that with about seven major national companies--all with resources a lot bigger than the Frito Company--we felt the need of, as a result of some such combination, a stronger base in which to expand. Although the Pepsi Cola Company at that time had very little debt and the Frito-Lay

Company had very little debt . . . both in a position of liquidity. Yet we felt that the borrowing power, so-to-speak, to expand further would be much better with the two companies together rather than the one. We also felt that soft drinks and snack foods complimented each other, that certain . . . that marketing programs could be jointly developed, that we . . . it was true also that they were one of the two remaining industries that distributed on a truck to store basis rather than through the jobber or through the . . . or direct the retailer or direct to the wholesale grower--I mean to the retail chain. That gave us a combined . . . an expertise of which there were things to learn and to gain from both companies. A third reason was we felt that with the new management at Pepsi Cola combined with some of the marketing expertise that we might bring to the party that we could improve our position in the market-place or share of market, I'll put it, in the United States compared with a number of our competitors. The market share of Pepsi Cola in the retail food stores and that's about the only true measurement you can get through such services as Neilson's had been slipping. We felt that if we were aggres-sive enough and smart enough and using the combined expertise and experience of both companies, we could improve that market share. Another reason for Pepsi Cola (long pause) was that we felt that the strengths of the two companies and the name Pepsi Cola, which is known around the world and known in the United States, really immodestly I will say a stronger trademark than any single trademark we had in total volume, possibly not as strong in share of market. Unquestionably not as strong in share of market as a number of our trademarks, such as Frito's Corn Chips and even as I recall Lay's Potato Chips, but the creation of a new company name was decided upon to be Pepsico. Other than to call the company the Pepsi Cola Company and put Frito-Lay in, we used the strength of Pepsi Cola, but put the CO on it, really to create the image, the impression that we were . . . or would be a diversified company, and we felt that we could become a diversified company easier with the strengths of the two than we could alone without being swallowed up. And that part of our reasons and plans had been followed through upon.

Caruth: How long did it take to work some of these things out? How long did the negotiating process go on?

Lay: For Pepsi Cola?

Caruth: Right.

Lay: It was rather . . . rather . . . rather fast with Pepsi Cola. We were brought together by a mutual friend, no broker, no investment banking house, a suggestion that I meet Don Kindall, the not-too-long president of Pepsi Cola. I did. We met on three or four occasions. Following a grocery meeting in Miami, we flew to, I believe, Nasau and discussed the matter more intimately for two or three days. The decision was made between us individually to proceed. He then went to his associates and a few of his directors confidentially, and we did the same. So it was really not a long drawn out affair. The trade was on an equitable basis we felt for both companies not on a basis of the larger company in earnings, such as Pepsi Cola paying a substantial premium for Frito-Lay. The board of Pepsico was totally reorganized with five members from Frito-Lay organization and seven members from Pepsi Cola.

Caruth: Who was the matchmaker? I'm rather curious about that.

Lay: He was a partner in the consulting firm of McKenzie and Company whom we had used at Frito-Lay for a number of years, and who knew Don Kendall, and I am not certain, but I think had done some work for the Pepsi Cola Company and felt in his mind that we were two people and two companies should meet, and he made the suggestion. We did, and would accept no renumeration or no gift (chuckle) from either of the companies.

Caruth: That's unusual.

Lay: It was unusual, yes. Neither would his company accept a gift. Now seven years later we prevailed upon the partner of McKenzie who did his first work for Frito-Lay as a very young man under the direction of the man that put us together . . . was prevailed upon to become executive vice-president with a timetable become president if it worked out at which time I would begin phasing down my retirement until the exact sixty-five-year-old retirement date. That plan has worked exactly on schedule as originally hoped for when we brought the young man, Andy Pearson, into the company, who is president and chief operating officer with Kendall as president and chief executive officer. So one of few plans ____________ I think I decided earlier exactly as the plan of the merger of the Frito-Lay Company . . . Frito Company and the Lay Company from a management and personnel standpoint everything that was talked out and thought out earlier happened just exactly as we had planned. Back to the expansion program. We felt part of our plan to bring in other companies . . . have a more diversified company. The first company brought in was a leasing company. That would sound strange in a marketing company except that the leasing company was doing about $20,000,000 of leasing for Pepsi Cola Company and its bottlers in vending equipment. It was very, very close. Secondly, they leased all of the roading equipment to Pepsi Cola in metropolitan New York. The Pepsi Cola Company owned its own bottling franchise in metropolitan New York. Thirdly, they leased to many others of our major bottlers. Fourthly, they were going somewhere, and we felt that it would have a fit for us. Subsequently, we have disposed of several pieces of the leasing company, and we learned a lot (chuckle) about leasing and about what not to do. At the time we were talking with the leasing company they were also doing a lot of work for North American Van Lines. The history and growth of North American was rather good. Their share of market had been increasing in the household furniture moving business. The chief executive of the company was approaching or had already reached retirement age and was anxious to phase down and out. He also wanted to become affiliated with a larger company with more associates they could contribute further to their growth. As I recall since that acquisition, the compounding growth of North American and its affiliates has compounded by 14 per cent, and we have expanded some of the activities, particularly in the area of . . . of transporting computers from factory to warehouse or to customer, transporting more furniture from the furniture manufacturing company to customer or to the warehouse. In addition, transporting rugs and other such equipment. That has helped contribute to this growth. We can do a better job than the common carrier with precision equipment that needs careful handling in transportation than other methods of transportation unless it were to be air (chuckle) and that would be so terribly expensive. Secondly, we can usually get the goods, such as computers, from the factory to destination quicker because our men are usually working on the same vehicle twenty-four hours a day, and we can move cross country rather fast with the goods crated according to our specifications and packed by us. So it's been a growing facet of the household moving business. Following Don Kendall's move to the presidency of Pepsi Cola, subsequently to the chairman of Pepsico, we embraced the one world management philosophy or technique which was becoming very popular at that time. It lasted about a year until we recreated the international division. We then made a fifth . . . a fifth division of the company--transportation, leasing, domestic Pepsi Cola, the international division (was responsible for both food and beverage) and the Frito-Lay division. Our progress was far slower in the development of the international food business than we had anticipated. We were doing so much and looking at so many other companies, fighting a federal trade cease and desist order or a federal trade litigation resulting six years later in settlement in the cease and desist order between . . . by virtue of the mergers between Frito and Lay and the Federal

Trade Commission contending that there were certain overlaps in the territorial operations of Lay and Frito, therefore it tended to lessen competition or potential competition, which is a very key word now in the . . . used by the Federal Trade Commission as well as the Justice Department, I believe. We did not develop all that . . . all that . . . we assigned another senior officer to the development of the international business--food business. He had other duties as well and we had been disappointed up until recently with the development of that activity--going out of Germany, out of England. We purchased two small businesses, non snack, in Sweden with the intention of expanding them into the snack business. We purchased a small business, not in the snack business, in Venezuela with that same view. We purchased a small business in Japan that was in the snack business, but was very, very small and needed substantial expansion and development to make it worthwhile. Meanwhile we purchased a small business in Mexico, and that has been our real success story. It is the father of all business development stories that has ever come to my attention in the food or beverage business. Of course, the business of technology, such as computer services and so forth is a growth situation that would match Mexico.

Caruth: What is the name of the company in Mexico?

Lay: Cabrito. It was the name of the company we purchased and is the name we still use. We have now brought in some new products, but all with Spanish terms, such as Frito's Corn Chips, Doritoes, and . . . but all other trademarks are Spanish. The business has grown in seven years (long pause) seven times over.

Caruth: In seven years.

Lay: Seven years.

Caruth: How long can it keep that up?

Lay: Well, it's . . . our plans for 1975 contemplates a very substantial growth in 1975, and the five-year plan a very continuing, substantial growth till the business will be doing in excess of 100 times what it was, 1980 from what it was in 1967, when we purchased it. The progress up until recently otherwise, as I said, has been rather disappointing, but now we have formed, sometime ago, with an experienced manager from the Pepsi Cola company, an international foods division with total responsibility separated from Pepsi Cola, for the development of our food business. We have since bought a company fiat including market share in Spain. We have turned it around in less than two years to a profit and have materially increased our market share in Spain, and we're very pleased with that. We expect to expand our Venzuela business now. We are building a new plant in Japan. It will be sometime before it will be profitable, but we have now have the facilities and the people in Japan to develop the market, if it can be developed, and we've always thought that it could. Now we've got the chance in front of us, but we sat on the little business, which was really nothing, for seven or eight years. During this interim period when our total ton corporate time and energy was devoted to other things such as the settlement of the federal trade case which substantially delayed, from a time standpoint, our going into other businesses, because we felt that until that was settled, we just didn't know what we could do and where we could go. In the interim, however, we did purchase the majority, about 70 per cent of Wilson Sporting Goods from the LTV Corporation. The business, although a very fine business, high quality products, capable management, had not had direction in planning and the type of marketing expertise which we thought we could lend to the company. And obviously we did, or something changed, because the business is . . . has in four or five years, improved its earnings substantially, reduced inventories related to dollar sales substantially, and related to net worth substantially, and increased its sales several times over. We have since, which we had hoped to do a number of years ago and which was delayed because of the Federal Trade case, hoped to have gone into other facets of the beverage business. We spent a great deal of time and energy and money and conversations with a number of beer companies, and we came to the conclusion after substantial studies with the help of McKenzie and Company under the direction of our current president. Decided that a regional beer company had very little future for us. Our judgment at that time, three years ago, has been substantiated by the direction of the regional beer companies, where they've gone. They've lost market shares. There were only four or five companies with national distribution. We made a tentative in what we thought was a binding agreement with Millers, but they received in that interim period before the contracts were drawn a higher offer from someone else, which we would not meet, so we did not . . . Millers and we're not in the beer business. We did, however, two or three years ago enter another business which we had wanted to get into for sometime and that is the wine business. We purchased, through an exchange of stock, a small wine company mainly in the distribution business, except for a half interest in a plant producing Sangria wines, our trademark being Yogga Sangria. The other business of the company was a rather loose contract for the exclusive distribution--I'm not certain exclusive, by the way--distribution of Russian ____________________ Vodka. Yogga Sangria is now the largest selling imported wine in the United States. We have sensed since we lost the supplier in Germany of a wine, which trademark U.S. Five we had established rather well. We lost that supply, so we bought a small winery not long ago in Germany to supply that trademark of the German imported wine. We then made an exclusive ten-year contract with the Soviet Union for the distribution of their principal brand ____________________ Vodka in the United States.

Caruth: Would you spell that for me? We'll never get it on the tape otherwise.

Lay: I may not even pronounce it too well, but I'll get it for you.

Caruth: Okay, good.

Lay: In return, in view of that fact that in the contract with a minimum sales for the vodka was guaranteed. In return and to provide currency exchange, the Soviet Union agreed to build a Pepsi Cola bottling plant--a new modern plant--buying from us as our bottlers do in the same way around the world--franchise bottlers rather, those that we do not own ourselves--to build a plant which has been completed and has now been in operation . . . will soon be a year . . . be a year in . . . a year last October . . . be more than a year now. Very well received in the limited area of which one plant could cover, which is on the Black Tree Resort area. We're hopeful, of course, that that will be the forerunner of many more plants to supply the demand in Russia. To supply the demand, it's estimated it would take between eighteen and twenty-four plants. So the opportunity is rather substantial.

Meanwhile, we do now have twenty-one plants operating in other Eastern countries, such as Hungary, Romania, Czechoslavokia, the last being East Germany just a few months ago, and Yugoslavia which was the first, and we have, I believe, about five buildings in the Eastern plants. We have competition from one of our major competitors in some of those countries, but we have more operating Pepsi Cola plants in the Eastern countries than anyone else. It's a totally new market. We do business, of course, with the government or with an agency of the government or with a bureau of the government or a commission or whatever you want to call it.

Caruth: How is it doing business with the Russians and the other Eastern block countries?

Lay: It is not too difficult. They're good traders. They want the best of the deal, and I guess we want the best of the deal too. There is a certain compromise, but when you're dealing with a bureau or a ministry, I think is a better word for it, you're dealing with individual men, you're dealing with men who are businessmen even though it is under the communist system, they are yet businessmen with . . . charged with the responsibility for doing a good job in their area of responsibility. And it's slower, and things don't work out exactly always like you would like for them to do . . . to work out. But sometimes just the contrary is true. East Germany decided they wanted a Pepsi Cola plant and when they decided, they called our office in Vienna, and said, "We want the plant operating in four months." (Laughter) And it was operating in four months. Of course, we had solicited their business for a number of years. So there was an indication of efficiency. We found rather considerable efficiency in Hungary where, I believe, my memory is we have six plants now--either six now or four now and two buildings.

Caruth: What are the biggest problems you had in working with the communist countries?

Lay: Well, the biggest problem is of course . . . even though you're working directly with a ministry, a number of other governmental agencies are usually in the picture one way or another--maybe protocol, state department, ____________________, which is their worldwide trading arm, usually is involved to some extent at least in an advisory way.

Caruth: So it's not a matter of dealing directly, then it's a matter of dealing . . .

Lay: Well, you deal directly, but it's a matter of involvement, one way, an approval by a number of other agencies to ascertain and to agree, rather, to ascertain, to agree that it's within national policy. We are now, because of the substantial sales to Eastern countries, establishing, and have already established, a small office of a highly competent man, a bilingual man in many languages, including Russian, in fact, the grandson of Tolstoy. We have established a small office in Paris to do bartering with other materials that we can take from some of these countries and dispose of so that we can not . . . so that our business will not either dry up or expand, because of the balance of payments problem.

Caruth: Right. Do the Communists use the Pepsi Cola trademark?

Lay: Exactly, except--exactly the trademark, except they spelled in the words . . . they do not use the common English alphabet in many countries--Greece being one, Turkey being one, Russia, of course, being one. The alphabet will be different, but the pronunciation is the same in every country--Pepsi. Even the . . . with different spelling, a wee bit difference appearance, it is still in Russian--Pepsi, in Greece--Pepsi, in every country in which we do business it is still Pepsi. All logos which is bottled and kept ____________________ are identical with what we have in the United States--identical around the world.

Caruth: Let me ask you another question. I seem to recall that in about 1966 the Arab League boycotted Coca Cola. What sort of effect did that have on Pepsico and the sales of Pepsi Cola in the Arab world.

Lay: Well, even prior to that time, we, in Pepsi, due to the foresight of Don Kendall and the energy he exerted and the fact in the mideast they had one of the most competent division vice-presidents in our company. He's of Arabian and English descent, speaks most all of the dialects and languages. We were far more established in all of these countries than our competition even at that time. We have tried to do business in that country. We have had opportunities to get innumerable bottlers. We don't think with the competition there now and the strength of the competition any bottler or ourselves can do business . . . can do anything but lose money. Therefore, if we . . . chances are to be in Israel when it's the proper time. The fact is, however, we are told that one of the reasons for the boycott was the fact that Coca Cola did business in Israel. This boycott, however, is only with a very few countries. There is no boycott in Iran, there is no boycott in Lebanon, and several other countries of which I don't recall there's no boycott. So it is really not as important as possibly some people would feel. First because of our strength before this, and secondly because there are no major countries involved anyway, and no one did business in Egypt for a long time. We have finally re-established an old bottler with a very small operation in Egypt. It'll be very slow because of the difficulty in getting . . . their having the currency available from a balance of payment standpoint to buy the concentrate which we sell the bottler, so the sales are very limited at this time. We hope that will change, of course, because Egypt would be a relative market for us.

Caruth: Let me back up for a moment. What are some of the problems with introducing snack foods in foreign countries, such as in England where traditionally they are not used to things like corn ships or possibly in France or other places?

Lay: We failed in the introduction of Frito corn chips in England. We put forth a rather strong effort, did a lot of planning, spent a fair amount of money, and failed to establish the product. I believe we made some mistakes. I don't think that we had the strength at that time in the small company to put forth the funds . . . to spend the funds and the advertising, merchandising, and marketing effort that might have put the product over. One of the reasons we thought at that time, and still think there is a potential market, because Kellogs Corn Flakes do a fairly good business in England and in other countries. At the time we had the joint venture in Germany, we did not put forth a strong marketing effort, but we did experiment in small markets to test corn chips in Germany and they were not a success there. Since we sold that business why no one else has come in to my knowledge at this time with corn chips. However, the corn chip is acceptable in Spain and, of course, it is acceptable in all Latin American countries, because the base of a corn chip is similar to the base of a tortilla, and the product really originated in Mexico in the first place.

Caruth: Was this perhaps one of the reasons behind the success of the Mexican company because the product is something they're more familiar with?

Lay: No, the . . . without Frito our success would have still been Frito's brand . . . the . . . that particular corn product. We would have been nearly as successful. They did have a corn product, but we . . . we were able to improve the quality considerably and to redesign the packaging and do a better job, but we now have a very diversified line in Germany, I mean in Mexico. Rather than just two or three products, now we have a product line of about nine important products including Checoronis which is the fried pork skin, and Doritos, which we brought from the U.S. into Mexico and so our corn product business is big, it's substantial, let's put it that way, and it is important, but our largest volume of business is potato chips, which ____________________.

The real gain and the real . . . the real strength of expanding our market beyond the limited area in Mexico City, which probably I think I recall Cuernavaca . . . expanding our business beyond that, potato chips was really the leader.

Caruth: I'm rather surprised at that. What about in Japan? Are you introducing corn chips there?

Lay: I said earlier that we stayed with this very small company . . . made a little bit of money under the management of one of the former Japanese partners and the majority of the company having been owned by an American. Built what we had to have to develop new products or to manufacture new products and what we had to have to expand the business, we built a new modern plant in Japan about two years ago. We feel that within another year or two we will have the business in the black. Saleswise, the business is growing substantially now. I meant to imply a moment ago that we had expanded the line and we've had to do a lot of studies, market studies. We have added American expertise temporarily, because to shorten the lines of communication and because, to research facilities for the snack food business are here in Dallas under the direction of the Frito-Lay Company, Japan is still under the management of Frito-Lay directly. It will . . . when this development program is . . . begins to bear fruit, it is very likely, of course, that it will then be made a part of the rather recently formed Pepsico Foods International Division. The Japanese, we think, will eat our product. Some . . . some taste changes and some changes in what will be a totally Americanized product, but we think we now have the people, the branch facilities, the expertise, and the momentum to bring that about. But to pay for that investment starting with a very, very small business couldn't be done over night, and won't be completed over night either. But I would say that we're in Japan to stay.

Caruth: Is it perhaps that the Japanese are more willing to make some of these taste changes than other countries.

Lay: Yes, they, of course, have become exceedingly Westernized in many of their tastes and in many of their customs, many of their habits, and yet they really have maintained their own culture in the main. And you are doing business with a different culture, a culture which has become, I dare say, Westernized to some extent. But in these days of rapid communication, in these days of considerable travel by all people to other parts of the world rather outside of their own country, I think you will find in going back that we in America have adopted many of the habits and customs of many other countries . . . Mexican foods, which has grown considerably here. Italian foods, pizza being one. Several thousand pizza places in this country today. Beginning about twenty years ago, Chinese . . . the consumption of Chinese food in this country had a phenomenal growth. I don't recall the rate of growth today, but I would say that it is . . . my guess is it's still growing. Italian food has grown considerably here in the consumption even . . . not just in the restaurant business to eat out, but in the retail store in canned goods it has grown. Mexican food now growing in some statistics saw recently in excess of 10 per cent, about 11 per cent a year. That's not fantastic, but compound 11 per cent, that is growth. Most of the business is still concentrated in the southern area of the country including southern California, most of the volume of Mexican food, but . . . it's rather trite to say that . . . the world is closer and customs are being adopted, but it's well to recognize it and to remember it, because it is happening and I believe at a faster rate now than . . . than in the past.

Caruth: Well, this holds well then for any company in the snack food business, such as Pepsico, right?

Lay: We think so. We think that under the very direct, strong management that we have in our foods international now that our growth will be rapid and that we will later than we had hoped still develop, although it's a little later in time, and we have more competition to face now than we did then, we still think that we will, in time, fulfill the . . . the ambitions we had, which was one of the reasons we put the Pepsi Cola Company and the Frito-Lay Company together.

Caruth: How do you think the international growth of Pepsico will compare with its domestic growth over the next five, ten years?

Lay: It is so difficult to forecast five or ten years, of course, abroad. Nationalization is . . . is coming about in many countries not yet to any appreciable extent in our business. There will, in the long run, be many corporations abroad that will be joint ventures, some which the foreign interest will be the minority. The currency fluctuations is very difficult to predict long ways out. Who knows if and when we'll have another break-out in war, whether the Mideast, or whether the Far East or just where. Who can predict the total change in the philosophy of government, which has come about twice in one country in last few years, and that's in Chile. So I would say under a ten-year period of normality the growth would likely be faster abroad because of the opportunity factor, and the middle class is growing, so to speak of emerging, as it already has to a great extent in Mexico and Venezuela, are emerging fast in Brazil and in many other countries to where many, many millions of people that didn't . . . that couldn't afford to buy as a part of their living or eating customs and habits a snack food more and more will be able to buy a snack food. For instance, if I didn't say this earlier, we've seen that happen in the forty-two years I've been in this business in the United States. When we paid the black in the South and probably the North too, not so many in the North at that time as there are today. When I was a kid growing up when we paid the black maid $3 a week for six days a week; we paid the yard man a dollar a day and possibly gave him lunch, they couldn't buy many snack foods. Now really, except for the very poor in this country, they buy snack foods, and there isn't a section of any major city we don't have substantial sales. And I remember the time when in the poor areas some . . . the population of 30,000 or 40,000 people in a large city would maybe only call . . . possibly only called on two or three accounts. Those days . . . so we see that coming up in many of the countries abroad, coupled with the exchange of customs and habits between all countries throughout the world. Bear in mind I said under a period of normalcy, where one particular area we don't have to pull in, pull out, or if something else happens, or a war or an economic collapse.

Caruth: All other things being equal.

Lay: All other things being (chuckle) normal, let's put it that way. Yes, the opportunity is there abroad. And taking the world as a whole, Pepsi Cola is stronger than any competition in a number of countries. However, taking the world as a whole we have some catching up to do with our major competition and we think we'll do that--more particularly in Europe, which we are doing, and have been for the past two or three years, increasing our market share.

Caruth: May I back up for just . . . just for a moment?

Lay: Yes.

Caruth: I'm very interested in this marriage between Frito-Lay and Pepsi Cola and the fact that it seemed to come about kind of very informally on a personal basis between you and Mr. Kendall. Would you tell me a little bit and give me some insight into the kind of things two gentlemen talk about when they sit down to discuss the possibility of merging two substantial companies?

Lay: We talked about some of the things that I have already cited, were reasons for the merger--both sides. We talked about them, the fit. Then you have to . . . I think you talk about and look eyeball to eyeball and try to see if there is personal synergism--an overworked word, but that's the best word I can think of at the moment--not only between the two people initially involved, but synergism between this staff and organization, and that staff and organization. Can they merge in? Can they contribute? Which I think we were able to contribute a great deal in the area of data processing and profit planning and (long pause) the development of profit centers within a division, and holding the people accountable for the development of the profit plan in those centers and holding them accountable for fulfilling the objectives of the company and the profit plan. Some of the things that we contributed--some of the things that Pepsi Cola contributed was youthfulness, succession of management. The other thing that you . . . one of the other things that's important to think about and talk about is the philosophy of business. What are the responsibilities of a business to the . . . responsibilities to the consumer, to the retailer, and that in this case we both worked through retailers or through institutions in the sale of our products, to the stockholders? What is the responsibility? What is going to be the philosophy? What is going to be the policy, to the community in which you live and do business, to your employees? I think those are about the five main responsibilities that in my feeling you would need to talk out and have a certain understanding that you have a togetherness there, or else you will have philosophical or management . . . philosophical problems in the way that the business is to be managed. Another important matter to discuss and have an understanding about is the philosophy . . . ethical conduct of a business--conflicts of interest and there was no problem in that area in the Frito-Lay Company--never any problem in the Lay Company. There is no problem today in Pepsico. We have a very strong conflict-of-interest philosophy. We have a philosophy of fairness and equity in relationship with our employees, as best we can, to enable the business to grow and have a good bottom line, because without a good bottom line you're not going to grow. And I think those are the principal things and if they don't have that feel together when you're considering such a merger, and these were really two mergers between the Lay Company and the Frito-Lay Company and between the Frito-Lay Company and Pepsico, then you've got some real problems facing you that somebody is going to go by the wayside and you may have direct voting one way and others another. We haven't had that, so I think we've had that togetherness that we had hoped to have. No two men are alike, and it's . . . we've said many times, probably, no one man is alike from one moment . . . exactly alike from one moment to the next, so you do have differences. There have been no differences in major philosophy or policy. Now, but that could be different. The large company buying the small company, you have an understanding . . . quite often the management doesn't want to be there for the few years . . . you have an understanding you're going to run it the way we run the business anyway. You don't want to be acquired by us, it ain't acceptable. But these two you're speaking about, you have to have more than that.

Caruth: It's almost like a courtship, then isn't it? For example, you and Kendall first of all, I presume, before you talked figures or anything else or finding out about each other . . .

Lay: Yeah. That's right. What you think and what you feel and what you . . . even to the point of what are your avocations and what you do other than work in the business, and more importantly . . . just as important, however, were the two men who were going to be at the top, which we were for these years until I started phasing downward, which was nearly two years before actual retirement, which is really not yet retirement in the true sense of the word. You have to feel that your people . . . your chief officers can get together. And that one could leave one divisoin and go to another. That's happened innumerable times since our merger. Now if you get . . . if you have eight executives, let us say eight in one company and eight in another, and if you figure you won't lose at least one in that merger then you're just a little too optimistic and you'll lose, he'll lose again early retirement, or have early retirement from one or two, but to get sixteen to be on cloud nine and happy with their status and their position and with the philosophy of growth, not . . . far beyond the two companies, that's a little bit difficult to do, and I can't tell you that we did sixteen (chuckle) . . . had sixteen permanently happy people. A few have left, but none has left that left a void or a hole in the company. Usually the other way around.

Caruth: So you go through a series of stages here then. One is . . . well to use a title off a popular song, "getting to know you."

Lay: That's right.

Caruth: And from that beginning to look at how the company would fit and how it would be organized, and then finally moving down into this stage of a hard and fast agreement.

Lay: Yeah. We have had discussions on several occasions with other major companies doing several hundred million dollars of business into our company. That large a venture requires some of this same synergism and looking at, even visitin in the home. Dinner away from the business with the family, with the wives, and being certain that every . . . that key people know what is going on, because you bring a business in with a cost of a business a profitable growing business doing several hundred millions of dollars of business, you can't afford to say, "Well, if you don't like the way we do it, good-bye." You've got too much at stake. You must keep some of the major part of the management, at least until the time that you can . . . you can reorganize if that is required. Too many mistakes have been made that way in the acquisition and merger area in this country in the last . . . since the early '60's, in my opinion.

Caruth: And we see some of the results of that.

Lay: And we see . . . and we see . . .

Caruth: . . . Wilson with LTV, that was not a happy marriage.

Lay: Initially it wasn't, but you know I think I'm . . . I have no personal interest, never have had in the investment in the company, so I can speak rather objectively. But the Wilson situation, which was a real coup, in my opinion, for LTV . . . it finally developed into a really very . . . very, I think, working-together group. I wouldn't consider Wilson one of those.

Caruth: Initially it certainly wasn't.

Lay: Initially, yes. But the head of Wilson is still a very . . . has a very high position in the current LTV and in fact until recently, for health reasons, he has been chief executive officer of Jones and Laughlin. So it did work out there finally. They disposed, of course, of their pharmaceutical business, which naturally was probably a former management of Wilson & Company. They disposed of Wilson Sporting Goods, which naturally resulted in the same feeling, but they did that to raise capital, not because they wanted to get rid of it. It was not a matter at all . . . it was like cutting off a finger, but they had . . . or felt that they had to have the capital to help fund the tremendous Jones and Laughlin acquisition.

Caruth: Let me ask you about some of your other business interests now. You're involved with a couple of companies or so here in the Dallas area, aren't you?

Lay: Small companies. They have a small staff with a . . . with a man that oversees my so-called entrepreneural investment . . . oversees my investments in real estate--mainly in raw land, because I have no idea of being a developer. And really oversees these two small businesses, which we bought with the approval of the board of Pepsico prior to my retirement, but which then and now don't require a major part of my time. One of the businesses is a rather odd-ball kind of business (chuckle) in a way, and a sort of . . . more or less a south-western and southern type of business--a corny dog business.

Caruth: Is that Circle T Foods?

Lay: Circle T Foods. That's right--the corny dog business, and a very good business. We bought one . . . the first business that we bought mainly sold to institutional customers--the schools, ballparks and other such institutional . . . road-side stands and through a refrigerated jobber . . . jobbers who had refrigerated equipment, we felt that we could develop a retail business. We thought it was going to become very expensive to put . . . to employ the staff and to go at it section by section of a city like Dallas or market by market, so we were fortunately able to acquire another small corny dog business that was retail oriented, and we put the two companies together. The other company we purchased was a company which makes folding boxes for the cosmetic trade, and set-up boxes for many uses, the principal use . . . the largest volume being for mini computers and for hand calculators, clocks where they are packed in styrofoam inside the rigid set-up box. The third facet of the business is the drug label business. We make labels for all prescription drugs. It's a very job-like type of business. In fact, the laws require that you put the name and address of each drugstore and the telephone number be on the label. Therefore, even if you're selling a chain, you have to have a different label for each store in the chain, and you have to carry inventories to supply them, but it is really . . . the volume the number one facet of our business, for one reason we have expanded it considerably geographically since we bought the company two years ago. That provides me, from a personal standpoint, with an opportunity to see something grow, to be a part of something growing, which I . . . is a part of my way of life (chuckle), and secondly it keeps . . . although I don't spend too much time on the businesses, handling it through my so-called business manager; yet it keeps me busy and active in thinking and . . . and not on the golf course seven days a week (chuckle), and traveling, doing something unproductive. We have a lot of fun in being smart enough to beat the real estate market, and we did quite well until the last year and fortunately we have the staying power until the market recovers, which it always does. We are fortunate to have the staying power until we can hold the properties that we own until such time the market recovers and we get a fair value for it. They're much easier to hold right now than they were six months ago, because the cost of holding them has been reduced considerably. We hope it will go down a lot further. Our business manager is a graduate with honors from Wharton School of Business, MBA. Also with honors, secured a CPA from the University of Texas. He worked for three years with a major accounting firm, part of the time in auditing work and half the time in consulting. Left awfully young to go with a real estate firm who also had a major . . . one of whose major activities was the very popular at that . . . a few years ago putting together of joint ventures for the acquisition of either both raw land and improved property and the development of property, so he had an experience except for business management of a company. He had an experience in coming with me more than two years ago that was, I think, very helpful and an educational background that was helpful particularly as he was able to help think through in consultation with our auditors, who happened to be the same firm he worked for previously on personal and family tax matters, which we have to consider one way or another in nearly everything we do. And we have just this man and three secretaries as our staff.

Caruth: You're still an entrepreneur at heart then.

Lay: Still an entrepreneur at heart. We have invested in a number, over the years, some years ago, a number of entrepreneural joint ventures. Our . . . we . . . below 50 per cent in success. We learned a lot of lessons however, and I think as we continue those which right at the moment I think we're . . . we'll status quo with all the real estate that we own, I think we'll be back into that type investment and have learned a lot of lessons. Our last two ventures have been very successful that were investigated through the recommendation of my current so-called business manager. We are very, very pleased with him, but our record has not been too good. It is very unlikely that we'll make any future entreprenueral investment unless they're extremely attractive . . . unless our family

. . . my family, I and three or four of my close business and personal friends with whom I've been in a number of ventures together own total control of the business. It's very unlikely that we will enter the minority joint venture investment situation anymore. Too much can happen before we know it and the business is in trouble (chuckle).

Caruth: You're interested in entreprenuership; I am too, and it . . . one thing that I would liked to ask. Starting out as a young man you were able from, let's say scratch, to develop something and see a business grow.

Lay: Well, we were in the right place at the right time and did take advantage of the opportunities because of our ambition and drive, and so forth.

Caruth: Could a young man do the same thing today?

Lay: Yes, I think so. I think they are. The fastest billionaire in the world did it in six or seven years, and it's just coincidentally Frito-Lay was his first customer--first customer he had.

Caruth: You're talking about Mr. Perot.

Lay: Talking about Mr. Perot. That's one example. I . . . this is off the record, but their company is not one company that I can say paralleled that, and that was the Wylie group. They've had some problems since then and they are undertaking a very, very ambitious program in this microwave system that they're setting up and in these times it required a very, very delicate financing, but their come uppance so-to-speak was quite, quite fast. Here's a man, another man, not a . . . necessarily a very young man . . . in my book he's a young man, Jim Ling. He started another company, after leaving LTV, from scratch and until he got involved in the new adventure he was . . . he had a good company going well. He did make the mistake of buying a company that . . . he said that it wasn't (chuckle) . . . it was Mr. Ling's quotation in the newspaper which was misrepresented to him. So, after all, that's a mistake in not being thorough enough not to get something on misrepresentation. But that was another man that started from scratch. Of course, he had a reputation that helped him get started. I do think it is . . . I think the biggest problem in the entrepreneurs and I've invested now in . . . in one that totally failed . . . the biggest problem is trying to go too fast and do things without consultation and not having or listening to (long pause) capable, experienced, financial advisors. The second mistake is not recognizing change, not recognizing peaks and valleys in business and forecasting too high. That, I think, is the number one reason why many of the entreprenuers that I've been associated with in the last five years have failed. It's not that they didn't have that latent business ability to start the company, to organize it and really to manage it as . . . manage it as it was, but they wanted to be a Perot in seven years. You don't have many Perots after all in seven years time.

Caruth: Your advice then would be to have a financial man at one elbow and perhaps your lawyer at the other and go slowly.

Lay: In the two successful investments that we have and the two last that we made, one of them has turned the corner from nothing . . . absolutely three men and an office is all they had. They turned the corner in two and a half years in cost ability. They are now doing five million dollars worth of business. The other company had a few filling stations. Now they have hundreds--has been profitable from the first day. In both of these companies we consult in growth and expansion and in the financial management of the company . . . both of them.

Caruth: Let me ask you another question which is going to cast some reflections on people in my profession. Do you think our university schools of business are turning out people who will want to be entrepreneurs, or on the other hand are we simply turning out people who want to assume some staff position in a big corporation?

Lay: Well, I guess, that's a good question, and I'm sorry I'm not familiar enough with your program to . . . to know the answer at your school. Now I know that Jack Grayson and his number one man that took his place while he was away . . .

Caruth: Bobby Lyle.

Lay: . . . Bobby Lyle. I know that their objective is to develop entreprenuers and their emphasis is on entreprenueralship. I know of another school that started a business program . . . rather unusual . . . a state school and a private school jointly started an MBA business program. I've become reasonably familiar with this program. I made the address to their second graduating class of over twenty-eight. I had the opportunity to spend the evening with a number of them before the exercises and I found that they were being taught the basics of business management, and entreprenuership was not emphasized. Therefore, I found some disenchantment with some of the graduates that, with the necessity of their going into large companies, which they didn't feel suited them at a . . . in a training program or in a staff position. So . . . you see one of the other things that I find in seniors even, that there are undergraduates majoring in business that through their senior year don't know really too much about many facets of business. Such as a misconception of the profit to sales . . . it's amazing. I'm speaking about seniors in college, particularly freshmen. I'm not going to the high school level. Many of those haven't had time to form their opinions yet, and I'm concerned about that.

That there isn't ethics in business. It's dog eat dog. Yes, we've had all Equity Fundings and the Sharptowns and the mismanagement that no doubt caused Penn Central, tea-leave gazing and so forth, and you're having some now in financial areas that were brought about by excesses. You've had the financial community selling equities and securities in the late '60's to the public under the rules properly of the SEC on the state agencies and yet the companies had no chance to ever maintain the value at which they sold. You had those practices, but in the main, business in this country, although competitive, is ethical and without the participation . . . without the monetary support of business many private institutions in this country . . . in this country, just couldn't make it at all. So it isn't all bad and yet we get influenced, and I cannot blame the undergraduate or even the MBA graduate for being a little skeptical of this world that he's going into, and their standards and ethics and morals and the fight for survival and the inner-company rivalries and . . . and so forth. I can understand that and I think business has got to begin to do a better job of selling itself or this era we've lived in now for several hundred years of private business and private ownership even of property, that part may begin to slowly deteriorate.

Caruth: Let me ask you one final question that must . . . let's say we have a young man now who is perhaps leaving college who wants to be an entrepreneur. What words of advice would you give him?

Lay: I would say first it would be better to get . . . if he can select his company . . . with a company where he can continue his education. Continue to take every course that the company will let him take and give him time to take. Continue to . . . not continue to, but devote his outside time as much as he can to reading financial papers, understanding what the company is doing and where it's going and why. Be up to date at all times in getting familiar. Then when he feels like he has, after this period of time--maybe two years, maybe three, maybe five years, maybe one year--he will have then the time to select what looks like is an opportunity--maybe change from the large company to the small company and get more intimate knowledge of the problems of a one-man operation or a two- or three-man operation. Then he, by chance or luck or by his own ingenuity, can find something I think better after that period of time than he can having the chance of going off the street or taking a job as a driver or salesman which I did, which led to the opportunity of my going into the business for myself. That doesn't come around every moment. Ross Perot, for instance, that worked with IBM for quite a while and I'm sure--he has not told me, but I am sure--he must have been planning this business a number of years and trying to get together the finances to even hang out his shingle a long time before he went into the business.

Caruth: Create a solid foundation then.

Lay: The young man that works for me is thirty-one. In these two years in the . . . in the management and consulting with me, listening to a lot that goes around here, now becoming an avid reader of the publications that I read and many maybe I don't read. I think that man's capable of going out right now if he found an opportunity to better himself and if he had that burning desire to be an entrepreneur, he could go out right now and manage a successful business and possibly start one from scratch. Now thirty-one is still young. A lot of men could do that at twenty-six or seven. At least he wouldn't make the financial mistake that so many . . . by going too fast and getting over his head, if he found the right thing. These three men that I spoke about that had opened an office were officers in a pest-control company for which there are between four and six thousand in this country. Therefore ____________________ which I totally agreed because it had been through my own experience was that many of them are now in second and third generation families, many of them under financed, many of them wanting to join if there was an opportunity to build a substantial business by acquisition before coming fowl of any government regulatory body, and they bought about ten and have now turned into the black. Naturally they were in the red when they started. They had an office and two secretaries and three men and they had to eat, so there's an illustration of entrepreneural opportunity, if they follow on down the road with success. So let's just sort of slow down here now for another year probably or two to not take a chance of getting over extended in these times of uncertainty of the cost of money. These were not necessarily the youngest of men. One was fifty-five to my recollection, another was about forty-eight and the other about thirty-six.

Caruth: But it still can be done.

Lay: It still can be done. Now they went into the same business of which they had experience. And after all I had had six months with a snack company and a year and a half as the youngest salesman in the United States for a major distributing cracker company, so I had experience--some in the food business, and I think that helped substantially and materially--my getting started.

Caruth: Thank you.