

ROUTE 11 POTATO CHIPS

In the short film *Oyster Guanaca*, a Salvadoran dishwasher suffered the derision of his kitchen colleagues as he labored over whether to give his wife the expensive treat of oysters for her birthday. In the closing scene, the man sits at a table in the midst of his family. The sunlit room surrounds his family as they joyfully eat oysters. The man slowly turns to the camera as if to say “look at the pleasure such a simple gift could provide.”¹

Oysters were one thing, but could the lowly potato chip be a simple pleasure of a convivial table? Sarah Cohen, Route 11 Potato Chips owner and the writer and producer of *Oyster Guanaca*, thought so. And her chips had developed a cult-like following. **Figure 1** shows a Route 11 potato chip bag.

Figure 1. Dill Pickle potato chips.



Source: Route 11 Potato Chips. Used with permission.

¹ The description of the final scene of this movie was adapted from Stefano Sardo, “Oysters and Me: From Mud to Film,” *Slow Food*, November 4, 2002, http://www.slowfood.it/slweb/eng/dettaglio.lasso?cod=SW_00113 (accessed June 16, 2011).

A Brief History of Potato Chips

America had had a long love affair with the chip. The potato chip had been a delicious treat for over 150 years when it was “invented” in America—at least that’s what authorities such as the Snack Food Association (SFA) and the United States Potato Board (USPB) claimed.

According to the SFA (whose mission was to increase demand for snack food) and the USPB (whose mission was to increase demand for potatoes), the potato chip was cooked up by accident in 1853 by a sour, ill-humored cook at a ritzy resort called Moon’s Lake House in Saratoga Springs, a spa town in upstate New York. The story, which had a hint of the apocryphal about it, began with the antics of the chef, named George Crum.

According to snack and spud historians, Crum became angry at some diners who had sent back his french fries, claiming they were too soggy. Crum retaliated by cutting potatoes into super-thin slices, boiling them in cooking oil, salting them heavily, and sending them back to the diners. Some revenge! The diners loved it.

But the menu from the Moon’s Lake House Restaurant told the story best:²

Moon’s Lake House was originally opened on this site in 1853 by Carey Briggs Moon. The cooking duties at Moon’s were shared by Catherine Weeks and George Crum...Crum would frequently boast that he could take anything edible and transform it into a dish fit for a king. Few of his customers disputed this statement. Those who did and sent their food back to the kitchen were rewarded with spite, the most indigestible substitutes Crum could devise. In its second season, Moon’s was host to a gentleman who sent back his French fried potatoes, complaining they were soggy, with instructions to slice them thinner and fry them longer.

Crum received this request with typical hostility. He sliced some potatoes paper-thin and then dumped them into a kettle of boiling grease. When they were done to a crisp he salted them and sent them back to the table. Peering out from the kitchen door, Crum gleefully awaited the man’s shocked reaction. To his surprise the gentleman tasted the potatoes and was so delighted with the new treat that he immediately ordered more. Other diners ordered the crisp potato wafers and were equally delighted. The next day Crum’s creation, now called Saratoga chips by Moon’s tourist-conscious proprietor, were on every table in the restaurant. Soon they were on menus throughout the country.

Potato chips became part of American culture: They were America’s favorite snack. U.S. retail sales of potato chips topped \$6 billion annually, and worldwide sales had surpassed

² “Moon’s Lake House Restaurant Menu,” in *The Descendants of Robert Moone of Boston and Newport*, 420, <http://www.jstmoon.com/histories/Moon's%20Restaurant%20NY.pdf> (accessed June 16, 2011).

\$16 billion. The U.S. potato chip industry employed more than 65,000 people. Despite the dominance of the big chip makers, smaller potato chip companies had surfaced to fill niche markets, touting their better-made, higher-quality potato chips over the mass-produced chips that lined the aisles of big grocery stores and countless convenience stores. This group of smaller companies included Cohen's Route 11 Potato Chips. "I think potato chips are something everybody can relate to," said Cohen. "And the beautiful thing about a small business is that you're very tangible, accessible, and folks want to see you do well. So the popularity of potato chips plus being small equals a winner—as long as your product is really good, and hopefully better than the mass-produced varieties."³

The Route 11 Story

Route 11 Potato Chips was started almost on a whim, as an aside to running a restaurant. Although Cohen had originally wanted to be a filmmaker, she also wanted out of her family's hotel and restaurant trade.

"I wanted to escape the family business," said Cohen, a native of Washington, DC, whose family owned and operated Hotel Tabard Inn. The "quintessential small hotel" boasted 40 rooms, each of which had its own unique design and character. It was located on a quiet side street that was lined with trees, just five blocks from the White House. The hotel's restaurant offered what it called "eclectic American cuisine"—which is where the Cohen potato chip saga began.

Cohen's father's Tabard Farm, located in Virginia's Shenandoah Valley, provided tasty, organically grown potatoes, some of which were used at the restaurant.

"A neighboring organic potato farmer was lamenting to my dad that he had just planted all these potatoes for two brothers who'd contracted him to do it and then they landed themselves in jail for cocaine distribution. The farmer didn't know what to do," said Cohen. "A total visionary with a penchant for meat and potatoes, my dad was enthused and started planning the launch of the first organically grown potatoes for potato chips. This was the genesis of Tabard Farm Potato Chips. My parents launched their product in September 1984."

Sarah Cohen was still in college when the potato-growing scheme kicked off. And as unlikely as it seemed, Tabard Farm Potato Chips morphed into the Route 11 Potato Chips business with her reluctantly at the helm.

³ Case writer interview with Sarah Cohen, Mount Jackson, Virginia, April 22, 2011; unless otherwise indicated, all subsequent quotations derive from this interview.

Cohen explained:

My first real job out of college was as an assistant to the director on a documentary of the history of the White House. It was a two-and-a-half-year project and what I thought was a huge entrée into the independent film business. Just as we were wrapping it up, the project was terminated by the White House Historical Association, all funding was lost, and my job was over. I floated around a bit, traveled out West, and came back to DC to resume my old standby job at the front desk of the Tabard Inn, and I just happened to be there when my parents announced that they had decided to go into manufacturing. They had apparently purchased a little chip factory in southern Maryland and already had a huge order of chips from Williams-Sonoma. The last thing I wanted to do was get more deeply involved in my parents' kooky projects. But they needed my help and I decided to be the dutiful daughter and get them through this order. So with absolutely no manufacturing experience, I started up chip production in southern Maryland. I figured I'd go back to my fledgling film career after a year or two on chip duty. The rest is history. In April 1992, we opened up Route 11 Potato Chips in Middletown, Virginia. I didn't want to be in southern Maryland, and the Shenandoah Valley seemed like a good place to start up a little chip company.

Route 11 Operations

In 2011, Route 11 owned and operated a 22,000-square-foot chip factory in Mount Jackson, Virginia. This larger facility was opened in 2008 and replaced the much smaller facility in Middletown. The plant employed 35 people (not all full-time) and operated six days a week. There was a single "assembly line" for the chips. After each batch of a particular flavor was made, the line was washed to ensure the flavoring didn't transfer to the next batch, which could be a different flavor. In 2011, Route 11 produced seven flavors in 2-oz. bags (Lightly Salted, Barbeque, Dill Pickle, Sour Cream & Chive, Chesapeake Crab, Salt and Vinegar, and Mama Zuma's Revenge). All these flavors, except Mama Zuma's Revenge, were available in a 6-oz. bag as well. The Sweet Potato—chips made from sweet potatoes—was available in 1.5- and 5-oz. sizes. The company occasionally used Yukon Gold potatoes to make chips that they called Tabard Farm Yukon Gold. **Exhibit 1** shows the packaging for these flavors.

Route 11 also operated a gift shop and visitor center on-site. On production days, visitors could peer through large windows that overlooked the factory floor to see the entire chip manufacturing process. The gift shop sold Route 11 chips and various logo wear.

There was an earthy, sweet smell to the Route 11 plant where the spud slicing happened. A tractor-trailer's worth of spuds—about 50,000 pounds—was delivered there once or twice weekly depending on orders. Route 11 used some 100 tractor-trailer loads of potatoes every year.

The spuds were dumped into a water tank where they were washed; then the potatoes were conveyed to a peeler machine, which used rollers to strip the skins off. The skinned spuds were then dumped out into moving bins and inspected for defects. The raw, perfect spuds were next carried into a slicing machine where razor-sharp blades slashed them down to size—just over one-twentieth of an inch thick for the kettle chips Route 11 produced (regular chips were sliced slightly thinner).

The slices were dumped into a trough of hot oil and cooked to perfection. “Potato chip yields vary from potato to potato,” Cohen said. “You boil a potato down by about one-quarter when you cook the water out of it.” Kettle chips were cooked at a lower temperature for a longer time.

Finally, the chips were hand-seasoned as they moved along a conveyor belt using different ingredients depending on the type of chip being made. The seasoning stuck to the chips because they were still wet and warm from cooking. All varieties of chips were salted with a special, ancient sea salt harvested in Utah.

A machine called a scale bucket—which weighed to the gram—filled bags with chips at the rate of 26 6-oz. bags a minute. From peeler to bag, it took eight minutes to turn raw potatoes into bags of potato chips.

Sales and Profitability

In 2010, Route 11 sold about 3.3 million 2-oz. bags and 600,000 6-oz. bags. The Lightly Salted flavor was by far its best seller, comprising about 40% of total sales. **Exhibit 2** provides an estimate of the proportion of total sales for each flavor.

Chips were sold through two separate distribution channels. Some chips were shipped directly from Route 11 to retailers, whereas others went through distributors. In general, retailers located in areas where Route 11 had little market penetration (e.g., California) bought their chips direct, while retailers in areas with high penetration (e.g., Virginia) bought their chips through distributors that served the given geographic area. The wholesale price sheet in **Exhibit 2** provides current case prices (as of August 2010) for direct sale of each flavor and size. These prices had been in place since January 2008. At that time, prices for direct sales of cases of both 2-oz. bags and 6-oz. bags were increased by \$2.00. The prices for both sizes of sweet potato chips remained unchanged. Route 11 generally provided a 25% discount to distributors. About half of all chip sales were made through distributors while the other half were direct sales.

Because the flavorings that were applied to different flavors of chips were a very small part of the overall production cost, there was no appreciable production cost difference among the various flavors. Route 11’s 2-oz. bags cost about 36 cents to produce and 6-oz. bags cost about 81 cents. Total fixed costs associated with running the factory (labor, electricity, etc.) came to about \$1 million per year.

Product Line Rationalization

One way that Route 11 had attempted to increase cash flow was to reduce the breadth of its product line. There were hard-to-quantify costs that slow-moving flavors imposed. For example, if a retailer tried to carry all Route 11's flavors, it might end up allocating too much shelf space to the slow-moving products relative to the big sellers. That could lead to stockouts among the big sellers and the potential for lost sales. Route 11 attempted to ameliorate this problem by showing retailers the different flavors' relative market shares (**Exhibit 2**) hoping that would encourage them to purchase and display flavors in a way that minimized stockouts. But if a retailer wanted to carry a given slow-moving flavor, the physical dimensions of the packaging and the constraints on shelf space could easily force the retailer to hold too little inventory of the big sellers. Upon encountering a shelf whose space for Lightly Salted was empty, some consumers might switch to another Route 11 flavor, and some might buy a product from a competing chip company. It was nearly impossible for Route 11 to detect and monitor stockouts at the retail level and to determine how these stockouts affected sales, but the company suspected it was a serious problem.

Producing fewer flavors would also decrease the number of flavor-related changeovers the production line had to make. Each time the production process was stopped to change to another flavor, several pieces of equipment had to be washed down thoroughly. Route 11 never attempted to quantify the cost of changeover time, but it was clear that it cut into overall production efficiency.

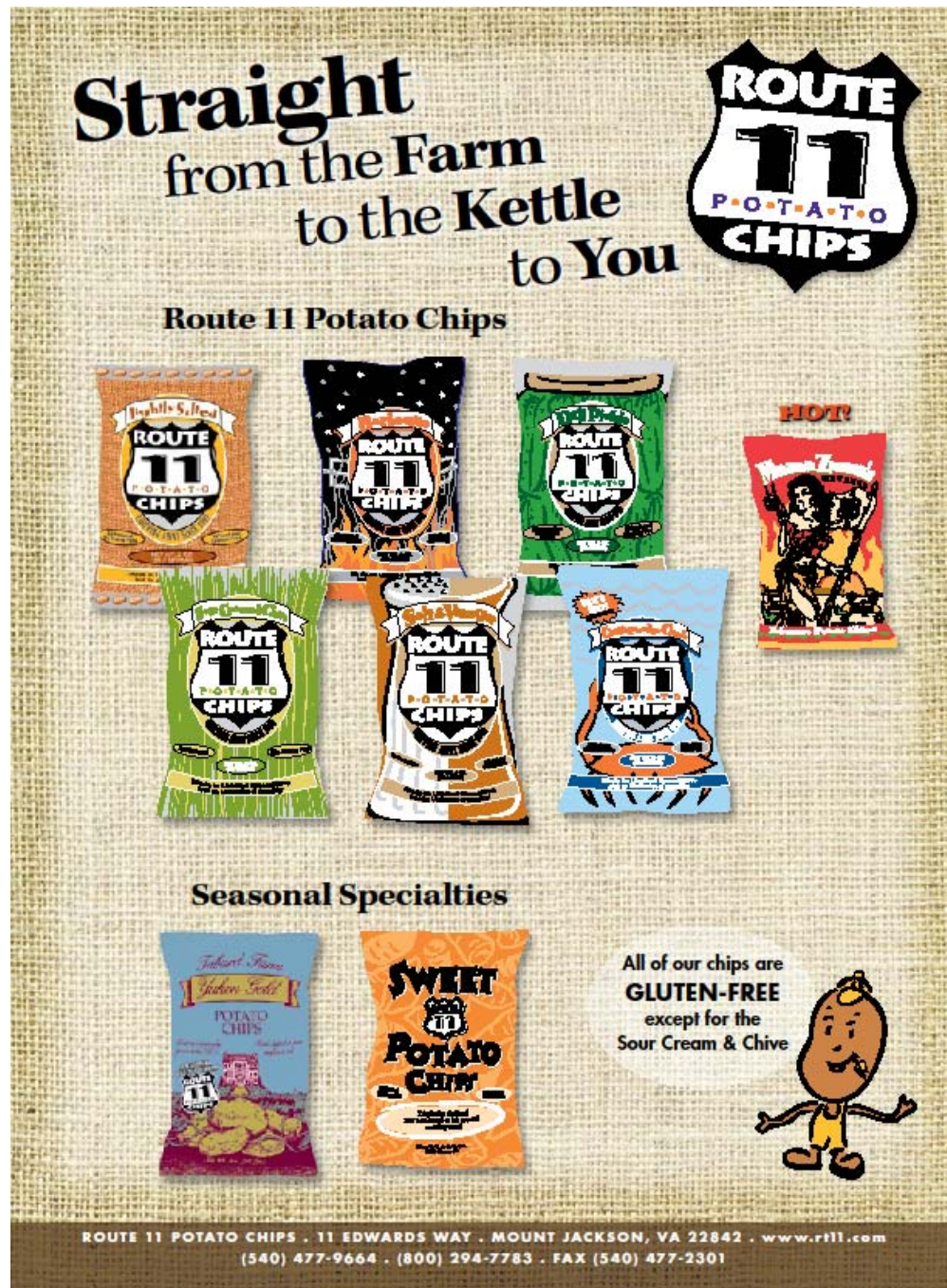
For this reason, Route 11 had discontinued some of its slow movers. In the previous two years, it had discontinued the flavors Green Chile Enchilada, Garlic & Herb, and Cinnamon & Sugar Sweet Potato. It was difficult to know exactly how this product-line trimming affected sales. But as the pressure to increase cash flow mounted, Route 11 was considering further cuts in its product line. Next on the potential chopping block was Salt and Vinegar, a flavor inspired by traditional British "chips," which was carried by many other chip brands, and Chesapeake Crab, a flavor unique to Route 11. Both were disappointing performers whose sales probably did not justify their costs.

But it was not going to be an easy decision. It struck at the heart of what Route 11 stood for as a company. Would further trimming have an impact on cash flow? How would it affect the brand and the cult-like following it had enjoyed over the years? Would Route 11 just begin to look like every other potato chip company? That was something Sarah Cohen desperately wanted to avoid.

Exhibit 1

ROUTE 11 POTATO CHIPS

Route 11 Packaging



Source: Route 11 Potato Chips. Used with permission.

Exhibit 2

ROUTE 11 POTATO CHIPS

Wholesale Price List



Route 11 Potato Chips Wholesale Price List

For the best results with our product, please use this graph as an ordering guide. This information is based on the actual sales over our own retail counter for the last three years.



TERMS AND CONDITIONS

PRICES ARE SUBJECT TO CHANGE WITHOUT NOTICE

ORDER MINIMUM: 1 case. We do not split cases.

METHOD OF PAYMENT: All orders must be prepaid. We accept American Express, Visa, MasterCard and Discover.

TERMS: Terms are Net 30 upon approval. A completed Route 11 credit application is required. Please allow 4-6 weeks for processing credit. Accounts 30 days past due may be placed on prepay status without notification and no additional shipments will be made until invoices are paid. Past due accounts are subject to a finance charge of 1.5% per month. Returned checks will incur a \$35.00 charge.

VIRGINIA CUSTOMERS: Must include FORM ST-10 for sales tax exemption with first order or VA sales tax will be applied.

HOW TO ORDER: Call us toll-free: 800-294-7783, Monday-Friday, 8am-5pm EST. Fax your order to: 540-477-2301. Email your order to sales@rt11.com. All faxed and emailed orders will be confirmed by fax or email.

SHIPPING: FOB Mount Jackson, VA 22842. We ship UPS unless otherwise specified. Please allow a 1-3 day lead time for order shipment. Our UPS discount is passed onto our customers. **Savings Tips:** If ordering 2oz cases, order in sets of two. We can strap these together, ship them as one package, and have significant savings. Order \$300.00 or more in product and take 10% off the shipping. Order \$500.00 or more and take 50% off the shipping.

RETURN POLICY: Please report any problems with your order within 7 days of receipt. Report any damages to the carrier immediately. Save all packing materials for the carrier to follow up and inspect for claims. If there is no obvious damage to the boxes, but there are a few bags that have popped open, please count the bags and call us. We will credit you for the open bags.

SAMPLES: Samples available upon request. Sample quantities are determined by order volume.

SHELF LIFE: Everything we ship is freshly made. Shelf life of all potato chips: Approximately 4-6 months. All bags are code dated with "Best By" date. Fresh chips are the best chips. Please order conservatively and please consult the above sales chart when ordering. We don't take back out-of-date product.

CHIP MAINTENANCE: Store chips in a dry, cool environment. Do not expose bags or cases to direct sunlight.

ITEM DESCRIPTION	CASE PACK	UNIT PRICE	CASE PRICE
ROUTE 11 POTATO CHIPS – 2OZ BAG			
LIGHTLY SALTED	30	.67	20.00
BARBEQUE	30	.67	20.00
DILL PICKLE	30	.67	20.00
SOUR CREAM & CHIVE	30	.67	20.00
SALT & VINEGAR	30	.67	20.00
CHESAPEAKE CRAB	30	.67	20.00
MAMA ZUMA'S REVENGE – HABANERO	30	.67	20.00
ROUTE 11 POTATO CHIPS – 6OZ BAG			
LIGHTLY SALTED	12	1.50	18.00
BARBEQUE	12	1.50	18.00
DILL PICKLE	12	1.50	18.00
SOUR CREAM & CHIVE	12	1.50	18.00
SALT & VINEGAR	12	1.50	18.00
CHESAPEAKE CRAB	12	1.50	18.00
ROUTE 11 SEASONAL CHIPS			
TABARD FARM YUKON GOLDS – 2oz BAG	30	.67	20.00
SWEET POTATO CHIPS – 1.5oz BAG	30	.73	22.00
SWEET POTATO CHIPS – 5oz BAG	12	2.20	26.40
ROUTE 11 DIP MIX			
ROUTE 11 DIP MIX – Makes two cups <i>available in Dill Wonder, Garlic Delight, Cheesy Bacon & Cajun Surprise</i>	12	1.50	18.00

ROUTE 11 POTATO CHIPS • 11 Edwards Way • Mount Jackson, VA 22842
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