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## Peerless Potato Chips

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### Introduction<sup>1</sup>

Kate Kelly was CEO of the Peerless Potato Chip Company (Peerless), a family-owned manufacturer of high-end organic potato chips. For the first time since its establishment almost 25 years earlier, the company was experiencing a steady downturn in profits. After poring over purchase orders and sales records, Kelly initially concluded that one way to stem losses was to discontinue the sale of two underperforming varieties of potato chips. However, this would be the second time in as many years that Peerless cut back on its product line, and Kelly wondered about the message another pullback would send.

Would consumers see the narrowing array of chip varieties as proof that the upscale company was just another mainstream producer of the 1.5 billion pounds of potato chips consumed in the United States each year?<sup>2</sup> Or would discontinuing two chip varieties—which combined made up barely 5% of sales—really make a difference in braking the downturn?

There was something even more troubling. Kelly knew the company's financial slide was the result of her own negligent management. She struggled with guilt as she reviewed operations reports that showed glaring operational oversights, missing performance indicators, and an array of absent metrics.

### A Cultural Icon

America had a long love affair with the potato chip. It had been a delicious treat since it was “invented” in upstate New York over 150 years ago—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 foods) and the USPB (whose goal was to increase demand for potatoes), the potato chip was cooked up by accident in 1853 by a bad-tempered chef. As the story goes, George Crum became angry with 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,

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<sup>1</sup> Resilience Education, a nonprofit founded at the Darden School of Business, provides high-quality, customized education for vulnerable populations. For more information, contact [info@resilience-education.org](mailto:info@resilience-education.org).

<sup>2</sup> Juan Imaz, “Potato Chips—The World's Number One Snack,” beBee, July 8, 2017, <https://www.bebec.com/producer/@juan-imaz/potato-chips-the-world-s-number-one-snack> (accessed Mar. 19, 2021).

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This fictional case was prepared by Liz Ivaniw Jones, Case Writer, under the supervision of Gregory B. Fairchild, Isidore Horween Research Associate and Professor of Business Administration. It was written for a curriculum designed by Resilience Education as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. It was adapted from “Route 11 Potato Chips” (UVA-M-0810), by Ronald Wilcox and Carlos Michael Santos. Copyright © 2021 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an email to [sales@dardenbusinesspublishing.com](mailto:sales@dardenbusinesspublishing.com). No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.* Our goal is to publish materials of the highest quality, so please submit any errata to [editorial@dardenbusinesspublishing.com](mailto:editorial@dardenbusinesspublishing.com).

salting them heavily, and sending them back out to the diners. The diners loved them, and a cultural icon was born.<sup>3</sup>

By the early 20th century, potato chips were being mass produced, and it wasn't long before they became America's favorite snack. As of 2015, US potato chip revenues topped \$7 billion annually and \$15 billion worldwide.<sup>4</sup> Despite the much larger sales of the big potato chip companies such as Frito-Lay, smaller companies had also appeared, advertising trendier, better-made, higher-quality potato chips. Peerless was one of the latter. See **Exhibit 1**.

### The Peerless Story

Almost by chance, Peerless had been started by Kelly's uncle, Martin Arden. Arden operated a family farm in Virginia's Shenandoah Valley, where he produced a variety of organically grown vegetables, including potatoes. One day, when a neighboring farmer complained to Arden that the buyer he had lined up to purchase his potato crop had backed out of the deal, Arden—always on the lookout for a new money-making idea—had another of his “A-ha” moments. Invariably, these epiphanies were quirky schemes that had entertained his family for decades with their improbable premises.

“Just another one of Uncle Marty's wacky ideas,” family members would say, laughing. “Nothing will ever come of it.”

This time, however, on impulse, Arden purchased his neighbor's potatoes, added them to his own crop, and began experimenting with an idea he had quietly toyed with for a number of years.

“Consumer tastes are changing. Millions of health-conscious people are buying organic food,” Arden reasoned. “At the same time, snack foods are big business—over \$27 billion in sales annually.<sup>5</sup> I'm a successful organic farmer, and I grow potatoes. So why not make organic potato chips?”

And so, in the early 1990s, Arden launched Arden Farm Potato Chips, the precursor to Peerless.

Kelly had been in college when her uncle's potato chip scheme kicked off, and she skeptically followed its ups and downs. After graduation, she parlayed her degree in theater arts into a job with a small Shakespearean theater company in New York—which, just a few years later, filed for bankruptcy. Although she was still set on making her mark on the stage, Kelly decided to put her job hunt on hold and head back to the Shenandoah Valley and the close-knit community where her family had lived and farmed for generations.

She was surprised to find that her uncle's venture had taken off—over the years, word-of-mouth advertising and modest marketing saw sales steadily uptrend. Distribution had reached distant counties of the Old Dominion, trucked from Arden's production and packaging center—which was, in reality, one of the farm's outbuildings. However, as demand grew, Arden's production apparatus became strained. He had outmoded equipment and only a handful of workers and intermittent family helpers.

<sup>3</sup> “George Crum: Potato Chip,” Lemelson-MIT Program, Massachusetts Institute of Technology, <https://lemelson.mit.edu/resources/george-crum> (accessed Mar. 19, 2021).

<sup>4</sup> Vince Bamford, “Snacks 2015: Top 10 Best-Selling US Potato Chip, Tortilla and Pretzel Brands,” Bakeryandsnacks.com, March 15, 2016, <https://www.bakeryandsnacks.com/Article/2016/03/15/Snacks-2015-top-10-best-selling-US-chips-tortilla-and-pretzel-brands>; Billy Jenkins, “March 14 Is National Potato Chip Day,” KYSSFM.com, March 13, 2018, <http://kyssfm.com/march-14th-is-national-potato-chip-day/> (both accessed Mar. 19, 2021).

<sup>5</sup> Statista, <https://www.statista.com/statistics/257994/snack-dollar-sales-in-the-us-by-category/> (accessed Aug. 3, 2018).

Few people were more surprised than Arden when Williams-Sonoma reached out with a request to feature his company in the following year's summer catalog. The request came with an impossibly large order for various potato chip flavors—in particular, Arden's latest creation, Taj-Extreme, which had become something of a local snack phenomenon. Crunchy and spicy-hot with an Indian vibe, the Taj-Extreme chips were a perfect match for an ice-cold beer.

In response to the Williams-Sonoma contract, Kelly's entire extended family worked in shifts to help Arden set up his small, newly purchased and retrofitted potato chip factory situated on a land tract that offered expansion possibilities. Only eight miles from the farm, the modest but up-to-date facility would allow Arden to keep pace with what he hoped would be increasing orders for his product.

When Arden asked Kelly—his favorite niece—to lend a hand, she was reluctant at first. "I'm an actor, an artist," she said, "and the last thing I see myself doing is factory work."

Arden, however, was persuasive: "Kate, I'm going to make something of Arden Farm Potato Chips. I want you to be part of it. I haven't children of my own, and you're like a daughter to me. If you can just see your way to helping me fill this first national order, then I won't say another word if you decide to pack up and head back to New York."

Kelly knew he needed help. She felt guilty that he had worked so long and hard to make a go of things, and here she was about to turn him down. So Kelly didn't hesitate any longer. "Uncle Marty, of course I'll help you," she said. "I'll do everything I can to help make your company a success, I promise."

So within a few weeks, with zero knowledge about potato chips—other than eating them—Kelly started up chip production in Arden's factory. She figured she would put in a year at most, and then go back to her stage work. Arden was elated. "Well, I guess we'll see who has the last laugh in the family now," he said, chuckling to himself.

## Peerless Operations

By 2010, Kelly was CEO of Peerless, taking over after the sudden passing of her uncle. Kelly never went back to the theater. Instead, she had to admit to herself that she was captivated by the workings of a business. Following her initial stint in the factory, she became the driving force in growing Arden's start-up from a local presence to a private-label company with name recognition from coast to coast.

Peerless now owned a state-of-the-art, 25,000-square-foot factory, where 40 full- and part-time employees operated the plant six days a week. Attached to the facility was a warehouse, offices, and a gift shop and visitor center where, on production days, people gathered at the floor-to-ceiling windows overlooking the factory floor to watch the entire chip-manufacturing process. It drew many visitors who savored the plant's earthy, sweet smell from the potatoes being sliced and cooked.

A tractor-trailer's worth of spuds—about 75,000 pounds—was delivered once or twice weekly, depending on the number of orders. Peerless produced eight standard chip flavors in two-ounce and six-ounce bags: Lightly Salted, Taj-Extreme, Barbeque, Dill Pickle, Asian Sweet Chili, Chesapeake Crab (which was unique to the Peerless brand), Sea Salt & Vinegar, and Sweet Potato.

The company regularly used Yukon Gold potatoes to make its limited-production Golden Chips, a high-demand, lucrative sales addition. The company developed highly anticipated limited-sale varieties that were almost always best-sellers, most recently the runaway hit, Nutty Nutella. Hugely popular seasonal specialties