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**INVESTIGATIVE TECHNIQUES WORKSHOP:  
MERGERS AND ACQUISITIONS**

**Documents and Additional  
Course Materials**

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**United States Department of Justice  
Antitrust Division**

**and**

**United States Federal Trade Commission**

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**CANDARO DOCUMENT**

**Candaro**

<b>Year</b>	<b>Bids Submitted</b>	<b>Bids Accepted</b>	<b>Barrels sold</b>	<b>Cases Sold</b>	<b>Liters Sold</b>	<b>Revenue*</b>
1999	not known	6	3876	30068	748416	3205680
2000	36	12	3809	29032	729284	3308440
2001	48	25	3563	27684	688508	3011112
2002 (full year)	63	24	4037	31563	782456	3170108

\* In constant currency, i.e., adjusted for inflation.

**MARTUCHA DOCUMENT.1**

## Memorandum

**Date:** 1 February, 2002

**Re:** Decline in Sales

**To:** Juan Ortega, Chairman, Conglom  
Carlos Menotti, Regional Director for South  
America, Conglom

**From:** Jose Bertoni, General Director, Martucha

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Attached is a memo from Ana Kempes explaining the reason for our decline in sales. As I think it illustrates, we really have to be more competitive in selling our product. As you requested, she and I are putting together a strategic plan for Martucha. In response to Sanfor and Candaro's aggressive marketing approach, we have already started to implement discounts to our better customers to make sure that we don't lose them. We are also offering the same discounts to large businesses that buy Candaro and Sanfor tomato sauce.

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**Memorandum**

**Date:** 26 January, 2002  
**Re:** Request to Explain Decline in Sales  
**To:** Jose Bertoni, GD  
**From:** Ana Kempes, Director of Sales

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You requested that I analyze the recent loss of sales to identify areas where we might make improvements. Over the past two weeks, I have talked with each of our sales persons to determine the reasons why we have lost so much business. The overwhelming answer is that we are being hammered by the competition.

In each of the major cities, we have consistently lost customers to Candaro and Sanfor due to their discounting practices:

- \$ **Martucha:** Martucha has traditionally been our strongest city. However, recently both Sanfor and Candaro have increased their sales staff, with some success. While most of our customers are committed to us, we have seen new purchasers seriously consider them.
- \$ **Trocha Angosta:** Trocha Angosta has historically been almost exclusively our domain. Just recently Candaro established a sales representative there. We are still waiting to hear how successful they will be.
- \$ **Ciudad Nueva:** Ciudad Nueva has also been one of our strongest sales areas. However, just recently Sanfor opened an office there. They

have already won three contracts.

\$ **Candaro:** Candaro has traditionally been a hard market to penetrate. However, the current discount war has decimated any presence we have had there. I need to talk with you about potentially closing down our office there.

\$ **Miramonte:** Miramonte is one of the largest markets for tomato sauce. While in the past we have been surprisingly successful, we just recently lost two of our top 20 customers.

\$ **Valle Viejo:** Valle Viejo is the second largest market for tomato sauce in Panagra. One of our best representatives, Miguel Larrosa, just recently told me this story about what it's like down there. He found out that the Panagra Soup Company was starting a new line of soup that would need tomato sauce. He scheduled an appointment with the director of purchasing, Felipe Gallego, but when he got there, Garelius had already contracted with Sanfor. Sanfor had offered a 15% discount for the job. Miguel explained that Sanfor is overselling and persuaded Garelius to do a side-by-side comparison of Sanfor and Martucha tomato sauce when the first shipment arrived. Well two days before we were supposed to deliver the tomato sauce for the side-by-side comparison, Garelius called us back and canceled. It turns out that the Sanfor agent had gone back and promised to give Garelius an extra barrel of tomato sauce per delivery if he promised not to talk with Martucha or Candaro!

\$ **Sanfor:** Obviously, Sanfor has a lock on the city and, again, we have suffered dramatic declines in the small amount of business we did have there.

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- \$ **Sevillana:** Sevillana is a small town that tends to favor purchasing from Sanfor. We have tried to make inroads, but have not been able to get enough business to set up an office.
- \$ **Costa Bonita:** Costa Bonita is the largest market for tomato sauce in Panagara and our performance there is the most disturbing. We have lost three of our top ten customers. More importantly, we have not gotten a new customer for over a year. We should definitely bring in a new sales representative to run the office. As we have already discussed, I think Miguel would be excellent for the position.
- \$ **Fronteriza:** Fronteriza is another large market, though one we have not been able to penetrate.

To sum up, Candaro and Sanfor have been aggressively expanding their territories by targeting our largest customers. Sanfor, especially, has made a habit of doing everything possible to take business away from us. In the long run, Sanfor cannot possibly handle all of the orders they have gotten. So eventually, we know that they will end up missing delivery dates and upsetting customers. However, it is very difficult for us to communicate this to the customers we have lost. According to my sales people, most customers who have been persuaded into switching to Sanfor will not consider switching back unless we at least match their price.

Up until now, we have been waiting for customers to come back to us. We know that we have been dealing with them honestly and forthrightly. So we are convinced that sooner or later they will have to realize that it is better to pay more and have a reliable tomato sauce supplier than to get an unreliable bargain. The problem is that we clearly cannot wait any longer. The only answer is to take the price war back to Sanfor and Candaro. Instead of

sitting back and letting them feed off our customers, we should be aggressively discounting to get their customers.

I know that you are hesitant to offer discounts unnecessarily, but we are clearly in a state of emergency. I know this will mean lower profit margins and correspondingly lower commissions to our sales forces. However, we know that we have no choice.

**MARTUCHA DOCUMENT.2**

**Memorandum**

**Date:** 15 February, 2002

**Re:** Strategic Plan

**To:** Juan Ortega  
Carlos Menotti

**From:** Jose Bertoni

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Attached is the final version of the strategic plan, which Ana Kempes prepared. After your approval, we will distribute the plan to everyone in the company.

## **Martucha Strategic Plan**

Ana Kempes

## **GOALS :**

- DOMINATE THE MARKET FOR TOMATO SAUCE BY PROVIDING CUSTOMERS WITH THE BEST TOMATO SAUCE IN PANAGRA AT THE BEST PRICES
- INCREASE PROFITABILITY BY FINDING WAYS TO REDUCE COSTS .

**BACKGROUND :**

Martucha has a long and proud history as a tomato sauce maker in Panagra. We are one of only three companies that have rights to the Ogorco-style recipe. Despite being the best tomato sauce maker in Panagra, we have, for a long time, only had an equal market share to our competitors. Even worse, we have recently begun to lose customers due to the aggressive and dishonest marketing practices of Candaro and Sanfor. The result has been not only that we lose business, but that our customers suffer from purchasing inferior tomato sauce. In looking forward, we must start to make the kind of changes necessary to recapture our market share and provide customers with the kind of tomato sauce they deserve.

## The Tomato sauce Market in Panagra

Tomato sauce is an important part of the food market in Panagra. They form a key part of traditional Panagran food, and are often featured as an embellishment to a festive meal.

Martucha tomato sauce is part of this tradition. As heirs of the Ogorco-style tomato sauce tradition, we are able to position ourselves as a high-class, yet familiar product.

Martucha's market is divided into two categories, the retail market and the wholesale or producer market. Each presents special challenges. In the retail market, we face competition from our traditional rivals, Sanfor and Candaro. There is heavy competition for a quality image, for loyalty of consumers, and, of course, price. In the wholesale/producer market, competition for large orders is fierce, and customers are not particularly brand-loyal.

Plans for each type of market are set forth below.

## **Retail market**

### **Competition**

Sanfor and Candaro are the key competitors, along with Norco in our northern markets. Imports are a growing threat for consumers who can afford them. We need to keep up our advertising and our quality image. Some consumers seem to buy whatever is cheaper at the moment, however, so special promotions will continue in this market.

### **New marketing opportunities**

**AHome-made® tomato sauce eaters.** Many people still eat Ahome-made® tomato sauce. This is especially true of older consumers. A major growth opportunity for us is to convince these consumers that Martucha tomato sauce is more consistent in quality, more sanitary and more Amodern®-- yet just as good in taste. We are developing a marketing campaign aimed at older consumers.

**Expanding the number of A tomato sauce meals.®** Tomato sauce is not a staple, but an option -- a side dish. One of our best growth opportunities is to encourage people to serve tomato sauce more frequently. Tomato sauce could be used in chicken recipes or in vegetable soups or stews. If we could get our current customers to eat tomato sauce on one or two more occasions each week, we would see substantial growth in sales. And this would not require us to attract customers away from our competitors. Special discount programs (buy 2, get 1 free) are designed to expand sales to current customers and take advantage of this opportunity.

## Wholesale/producer market

This market is a dog-eat-dog competitive struggle. We must be agile and aggressive to win in this market. Unfortunately, most consumers show no loyalty, and they can only think of one thing, price.

### PLAN OF ATTACK:

We must develop a plan of attack to recapture customers. Obviously, customers are primarily concerned with price and we have to find a way to meet their concerns. We have thus begun to offer new and inventive discounting systems for our largest customers. But this is only the start. We have to find ways to take customers from Sanfor and Candaro. If we do not, we will at best continue to maintain our market share.

The one bright spot on the horizon is that we can take advantage of Candaro and Sanfor. We know that they are taking more orders than they can fill and it is only a matter of time until they make mistakes. All sales representatives should be looking for opportunities to make Candaro and Sanfor look bad. We should monitor their customers and at the first sign of weakness, strike. Through discounting, we are now offering the same or better prices to our customers.

Another good thing is that it appears that few customers have responded to the tentative attempts in 2000 by Norco to start selling in our territory. We responded quickly to offer customers long term contracts when they were approached, and this seems to have worked. But the risk is always there.

**MARTUCHA DOCUMENT.3**

**Sales Data****Martucha**

<b>Year</b>	<b>Bids Submitted</b>	<b>Bids Accepted</b>	<b>Barrels sold</b>	<b>Cases Sold</b>	<b>Liters Sold</b>	<b>Revenue*</b>
1999	-	-	3005	34036	708932	3251529
2000	26	12	2926	32956	688072	3369821
2001	53	19	2985	32487	688344	3223782
2002 (full year)	49	18	3109	35034	731308	3178736

**Sanfor**

<b>Year</b>	<b>Bids Submitted</b>	<b>Bids Accepted</b>	<b>Barrels sold</b>	<b>Cases Sold</b>	<b>Liters Sold</b>	<b>Revenue*</b>
1999	7	3	3147	34527	729024	3315729
2000	24	11	3094	34056	718072	3481639
2001	66	38	3876	37583	838596	3610857
2002 (full year)	45	26	3562	33031	752572	3159596

\* In constant currency, i.e., adjusted for inflation.

Both Martucha and Sanfor use a 5,000 liter container to produce tomato sauce. On average it takes about two days to produce a batch of tomato sauce. If the factories run continuously, each factory can produce 180 batches of tomato sauce in a year. Thus, the overall capacity of each company is about 910,000 liters. As can be seen from the data above, both factories are clearly not now operating at capacity.

**MARKET SHARE ANALYSIS**

**Analysis of 2002 Market Shares:**

Company	Amount	Percentage Share
Capacity:		
Martucha	910000	33.33%
Sanfor	910000	33.33%
Candaro	910000	33.33%
Total:	2730000	
Liters Sold		
Martucha	731308	32.26%
Sanfor	752572	33.21%
Candaro	782456	34.52%
Total:	2266336	
Revenue		
Martucha	3178736	0.33
Sanfor	3159596	0.33
Candaro	3170108	0.33
Total:	9508440	

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**Additional Course Materials**

**Scenario A**

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**United States Department of Justice  
Antitrust Division**

**and**

**United States Federal Trade Commission**

Scenario A involves basically the same industry as the original hypothetical case. However, in addition to the pre-merger notification, the parties submitted the following position paper.

Seminar participants should assume that all the facts provided in the original hypothetical case are still applicable, except as stated in these materials.

**Position Paper**

We have written this supplemental paper to alert your attention to additional factors related to our proposed deal. While the deal we are currently proposing might normally raise concerns about its effect on competition, we wish to call your attention to the current status of Sanfor as a competitor. Not only has Sanfor been unprofitable for the past three years, but the officers of Sanfor have decided that if they cannot sell the company, they must shut it down.

As I am sure you are aware, Panagra has been and currently is suffering through a considerable recession. The unemployment rate has risen dramatically over the past five years and the standard of living has declined. In addition, Panagra has faced high levels of inflation for the past three years.

The recession has had a near devastating effect on the tomato sauce industry. In general, tomato sauce is not regarded as an essential component of most consumers' diets. Thus, when faced with increased costs, consumers tend to do without tomato sauce. The result has been a significant decline in the sale of tomato sauce. While some companies, such as Martucha, have been able to adapt and continue to make money despite the decline in revenue, other companies have not been so lucky. Sanfor is one of these companies, having suffered a decline in revenues for each of the past three years.

Given the fact that Sanfor is unable to continue to profitably sell tomato sauce, Sanfor will exit the market, regardless of whether or not it is purchased by Conglom. We therefore ask that you permit the deal to go through without considering the effects of the transaction on competition.

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**Scenario B**

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**United States Department of Justice  
Antitrust Division**

**and**

**United States Federal Trade Commission**

Scenario B involves basically the same industry as the original hypothetical case. However, now there are five competitors in the industry. In addition to the Ogorco Companies, there are Cordilleras DeLuxe, SA and Sardinia, AG. Also, Candaro sold its intellectual property right in the Ogorco recipe back to Sanfor and Martucha. Finally, instead of Conglom purchasing Sanfor, Sardinia has announced that it plans to purchase Martucha.

Seminar participants should assume that all the facts provided in the original hypothetical case are still applicable, except as stated in these materials.

### **Product Differentiation**

Sardinia is an Italian company that manufactures a premium brand tomato sauce that has begun to be sold much more frequently in Panagara. It has traditionally been sold in smaller jars to high end grocery stores and restaurants. Recently they have been exceptionally successful at expanding into more of the mainstream grocery stores and restaurants and have increased their sales dramatically over the past three years.

Cordillera is a Spanish company that manufactures another premium brand tomato sauce. However, Cordillera tomato sauce tend to be much spicier and to have a very distinct taste. It tends to be consumed by a much smaller number of Panagarans, and then only on special occasions. While Cordillera has had some success marketing to high end restaurants and specialty food stores, it has not expanded its sales in Panagra dramatically over the past five years.

After Ogorco was privatized, Candaro decided that in order to raise capital it should sell its intellectual property right in the Ogorco recipe back to Sanfor and Martucha. With the increased capital, Candaro redesigned its factory to produce a greater quantity of tomato sauce. Since then, Candaro has consistently been the cheapest tomato sauce on the market, though many consumers claim that there is a noticeable difference in quality between a Candaro tomato sauce and an Ogorco tomato sauce. Candaro's largest purchasers are fast food restaurants and grocery stores.

As the only two manufacturers of Ogorco-style tomato sauce, Martucha and Sanfor have spent a considerable amount of money seeking ways to distinguish their products. Over the past five years, both Martucha and Sanfor have developed new ways of marketing their tomato sauce. For instance, both companies have started to market different styles of decoratively sliced tomato sauce. In general, Martucha has been much more successful. Martucha tomato sauce is now often considered to be a premium brand tomato sauce and can be found next to Sardinia tomato sauce on the shelves of most groceries. On the other hand, Sanfor tomato sauce tends to be regarded as not quite as tasty. While objectively, Sanfor and Martucha tomato sauce are

manufactured by using an almost identical process, Sanfor has tended to be regarded as an inferior label.

In general, consumers have very different approaches to how they select tomato sauce. Some will purchase only the premium brand tomato sauce made by Sardinia and Martucha. Others purchase a premium brand tomato sauce for special occasions and a cheaper tomato sauce for normal consumption. Others have developed a particular loyalty to Cordillera style tomato sauce and will purchase only Cordillera, regardless of price. Finally, some consumers claim not to notice any difference between the different tomato sauces and purchase the cheapest tomato sauce available to them. Purchasers who buy tomato sauce in barrels tend not to buy premium tomato sauce, relying instead on tomato sauce produced in Panagra.