



LYNN SHARP PAINE

Beech-Nut Nutrition Corporation (A-1)

Peter Andersen parked his car in the lot at the Fort Washington, Pennsylvania, office of Beech-Nut Nutrition Corporation on Monday morning, June 28, 1982. Having been away on business the previous week he knew there would be a lot of work waiting for him. Andersen had been appointed CEO 14 months earlier by Nestle, S.A., Beech-Nut's Swiss-based parent company, with the specific task of making Beech-Nut profitable after several bad years.

As Andersen entered the reception area, Robert Shore, the vice president of Finance, came running after him with news about something that had happened on Friday at the Canajoharie, New York, plant. Shore described the dramatic arrival of a private detective who had announced that the truckload of apple juice concentrate which had just been delivered to Beech-Nut by a supplier was in reality a truckload of flavored sugar water. He wanted Beech-Nut to join a lawsuit against the supplier of the bogus concentrate.

After asking Shore a few questions, Andersen told him to telephone the Washington, D.C., law firm of Maltby & Kelman and to explain what had happened. Andersen prepared to call both Tom Storer, vice president, Operations and head of the Canajoharie plant, and Bruce McIntosh, the director of Quality Assurance and the company expert on regulatory affairs.

Andersen hoped the detective was wrong, or, at least, that Friday's delivery of phony concentrate was an isolated incident. After spending two years and millions of dollars to improve Beech-Nut and its products, Andersen didn't want to repeat the problem the company had had with adulterated orange juice. The last thing Beech-Nut needed was the publicity of a seizure by the federal Food and Drug Administration (FDA)—not to mention the cost of destroying product (about \$5 a case).

Beech-Nut Nutrition Corporation

By 1981, Beech-Nut was primarily a baby food company with sales of \$79 million on about 14 million cases of product (**Exhibit 1**). Its primary markets were in the U.S. northeast and midwest as well as California, but it also exported to about 45 countries (**Exhibit 2**). Founded in 1891 as a purveyor of smoked meats, the company had once been a large, diversified food concern selling such products as Life Savers, Table Talk pies, and Tetley Tea. In 1969, it was taken over by the Squibb Corporation, a large pharmaceutical and health care products company. Four years later in 1973, the

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baby food division was taken private under the Beech-Nut name by a small group of Pennsylvania businessmen led by lawyer Frank Nicholas.

As president and CEO of Beech-Nut, Nicholas had worked to strengthen the company's image as a provider of natural foods. Known as "Mr. Natural," he had removed the salt and most of the sugar from Beech-Nut's products. But debt service left the company strapped for cash and unable to mount a serious campaign against Gerber, the market leader. Cash difficulties also made it impossible to upgrade the outmoded equipment at the Canajoharie plant. The company owed millions to suppliers. Nicholas decided he would have to sell the company and started looking for a buyer in the late 1970s.

Nestle, S.A.

Nicholas found a buyer in Nestle, S.A., the largest food company in the world. In 1979, Nestle purchased Beech-Nut for \$35 million. Although the United States provided only 18% of Nestle's business, the company saw the United States as its most promising market for growth. Its goal was to generate 30% of its business in this market by 1985.

Since 1970, Nestle had sought to diversify its U.S. operations through acquisition of companies which met its high standards and shared its commitment to quality food products. Among its purchases were the Stouffer Hotel Company, Libby, McNeil and Libby Inc., and the Borel Restaurant Corp. These subsidiaries operated independently, but they had access to Nestle's research facilities worldwide and the advice of its experts. They were required to meet Nestle product standards and operate at a profit.

Nestle hoped Beech-Nut would become the highest quality baby food company in the United States. After the acquisition, Nestle sent all Beech-Nut employees booklets describing Nestle quality standards. Nestle provided an additional \$60 million to upgrade the 80-year-old Canajoharie plant and increase the marketing budget. Nestle also renamed the company "Beech-Nut Nutrition Corporation" to reflect its commitment to nutrition.

Peter Andersen, CEO

In order to turn the ailing Beech-Nut around, Nestle installed Peter Andersen as the new president and CEO to succeed Nicholas in April 1981. Born and raised in Denmark, Andersen had come to the United States in the late 1950s to work in the Chicago office of A.C. Nielsen before getting an MBA at the University of Wisconsin. He and his American wife had moved to Europe shortly after they were married. There they spent several years living in various countries while Andersen tackled such jobs as marketing cornflakes, toothpaste, and later meat products. Experienced in the food industry, Andersen had worked in five companies before joining Beech-Nut. In April 1980, he left Plumrose, Inc., to become the senior vice president for Marketing and Sales at Beech-Nut. On 1 April 1981, he was named president and CEO.

It was Andersen's job to make Beech-Nut profitable. Nestle management had acknowledged that this was a formidable challenge, and had assured Andersen that he would always have another job at Nestle even if he didn't succeed in turning Beech-Nut around. Andersen reported to a senior Nestle official in Switzerland and to the Nestle president responsible for U.S. operations in White Plains, New York.

When considering whether to accept the job, Andersen and his wife had bought a shopping cart full of Beech-Nut baby food and taken it home and tasted it. It was awful! Later, as senior vice president, Andersen had spent two days with the director of Research and Development analyzing

each Beech-Nut product for possible improvements. Andersen had insisted that even if babies couldn't say what they thought about their food, Beech-Nut should still sell nothing less than a quality product.

In October 1981, Andersen forwarded the full set of Nestle quality guidelines to Storer and others at the Canajoharie plant. He followed up with a letter asking whether Beech-Nut was in compliance and received a memo assuring him that Beech-Nut's operations were consistent with the Nestle guidelines.

Andersen had done a lot to improve the company and its products. He had introduced two main marketing approaches. The first was to emphasize the nutritional value of Beech-Nut's baby food. Under Andersen's guidance, Beech-Nut was the first manufacturer to remove all salt and sugar from baby foods. Following the research of a medical psychologist who claimed that babies could distinguish between basic tastes such as sweet and sour, Beech-Nut introduced an advertising program that asked "What good is good nutrition if it doesn't taste good?"

Andersen's second approach was to segment the baby food market. He had noticed that baby food was not differentiated according to the age or nutritional needs of infants, which varied considerably between babies just a few weeks old and children of two. Beech-Nut was busily examining how the segmentation concept might work and the variety of foods which could be sold.

Product Mix

Beech-Nut produced about 200 different baby food lines including juices, strained foods, and "juniors," combinations of soft vegetables or fruit for older babies. Apple juice products, which accounted for 30% of sales, were a major item. Beech-Nut's apple juice and apple juice products, including mixed juices and some strained foods, were made from concentrate, which was more easily stored and transported than fresh juice. The concentrate was blended to Beech-Nut's specifications by its supplier, Universal, and then reconstituted as juice, as necessary, by Beech-Nut. All the company's juices were pure. Each 4.2-oz bottle sold for about \$.25 and carried a label on which the words "100% fruit juice" and "No Sugar Added" appeared prominently. The only additive to juices was Vitamin C for extra nutritional value.

New accounts and the introduction of new products had led to sales increases in all product categories between December 1980 and December 1981 (see **Tables A and B**).¹

Table A Monthly Revenue Increases (Domestic)

	Dec '81 vs. Dec '80
Strained	+36%
Junior	+34
Juice	+68
Cereal	+10

¹ "Management Reporting Package for the Beech-Nut Nutrition Corporation for the month of December, 1981 and for the Year 1981," p. 10.

Table B Annual Volume Increases (Domestic) (in thousand cases)

	1980	1981	% Increase
Strained	4,970	5,380	8.2%
Junior	2,384	2,434	2.1
Juice	2,716	3,473	28.0

Industry Competition

Gerber was the baby food industry's market leader with a 70% (\$350 million) share of the baby food market. Gerber also sold products for preschool children such as clothing, nursing accessories, toys and furniture. Beech-Nut and Heinz were tied in second place, each with about a 15% share of the national market for the main product categories (**Table C**).² Heinz's product line included not only baby food, but ketchup, soup, canned fish, pet food, frozen products and condiments, as well as Weight Watchers brand name food.

Table C Beech-Nut's Domestic Market Share

	December 1980	December 1981
Total	12.7%	14.9%
Strained	12.3	13.8
Junior	14.5	15.4
Juices	13.9	19.3

Beech-Nut's most severe competition was from Heinz. When Beech-Nut won new accounts or managed to increase its shelf space, Heinz would respond with very attractive cash trade offers. Andersen considered the cost of defending Beech-Nut against Heinz the most risky element in his cash flow projections because it was impossible to predict the cost of deflecting Heinz. In 1982, Heinz had placed over \$6 million of competitive offers with Beech-Nut customers.

Industry analysts expected baby food sales to surpass \$500 million in 1982, due to increasing numbers of births. Between 1980 and 1981, the number of live births in the United States grew by 82,000 from 3,557,000 to 3,639,000.

Beech-Nut Facilities

Beech-Nut's corporate headquarters in Fort Washington, Pennsylvania, housed marketing and sales as well as corporate staff, along with a free consumer hotline. The company operated two plants. The larger plant was at Canajoharie, New York, a small town of 3,000 residents about 50 miles from Albany, New York, and a five-hour drive from headquarters. The plant employed between 700 and 900 people and manufactured most of Beech-Nut's baby food products. It supplied the eastern seaboard and mid-west, and exported to Puerto Rico and the Dominican Republic. The San Jose, California plant, with a work force of about 300 people, was less than half the size of Canajoharie. It

² Ibid.

produced virtually the same baby food lines but distributed to the U.S. west coast and exported to Australia and Japan.

Responsibility for both plants fell to Tom Storer, vice president, Operations, who ran the Canajoharie plant from his office there. Although there was a separate plant manager in San Jose, he was directly responsible to Storer.

Financial Situation

By June 1982, Beech-Nut's profit picture was looking better than in previous years, but still left a great deal to be desired. The company had lost about a million dollars in 1981 and needed to make a profit soon or Nestle would be tempted to sell it. Nestle was interested only in a growing company.

In the preliminary budget prepared in December 1981 and submitted to Nestle, Andersen had committed Beech-Nut to a profit of \$747,000, but each month the projected figure had diminished. Cash flow had also been a problem. Nestle management had balked at Andersen's initial projection of a negative cash flow of some \$1.7 million. Andersen had agreed to try for a zero cash flow. Fortunately, the company was doing well in the raw materials area, with Storer some \$3-\$4 million ahead of budget in the first few months of the year. Still, the zero cash flow commitment could be met only with difficulty, assuming good luck.

Andersen's doubling of the sales force in 1980 was beginning to show results. Major new chain store accounts had been won, and the sales people were able to negotiate for greater shelf space with continuing success. The June 1982 figures showed an increase in volume estimates (**Table D**).

Table D Volume Estimates^a (figures given in thousand cases)

	Original Budget	March Estimate	Change	June Estimate	Change	Total Change
Domestic	13,543	13,543	0	14,394	851	851
Export	2,860	2,527	(333)	2,683	156	(177)
Total	16,403	16,070	(333)	17,077	1,007	674

^a"Management Reporting Package for the Beech-Nut Nutrition Corporation for June 1982," page 1.

Aggressive purchasing of apple juice concentrate, sugar, meat, and glass jars during 1981 had meant that costs of materials were on budget. Also, since Andersen had told Storer in the spring that the company could not change to a more expensive apple juice supplier until the next budget cycle, concentrate costs—the second largest raw materials item—were sure to remain stable. Warehousing expenses were between \$150,000 and \$200,000 less than the original estimate.

However, marketing expenses were up, some \$1 million over budget, and more than Andersen had expected. The increase was due to the big effort in coupons and direct mailing to keep the pressure on Heinz. The sales people had also offered large trade promotions to get the new accounts. Beech-Nut had to increase market share to become profitable. Luckily, selling expenses were below budget for the month due to delays in hiring additional sales people.

Shore thought the net effect would be a profit of about \$600,000 for the year. Andersen knew Nestle would want some good explanations for this further slide from the \$705,000 profit he had predicted the previous month.

The Friday Afternoon Incident

Andersen decided to call McIntosh, the company's quality assurance head, to get a better feel for the Friday afternoon incident before reaching Storer. Although Andersen and Storer were cordial with each other, Andersen sensed that Storer liked to run the plant without interference. Yet Andersen found it hard to distance himself when Beech-Nut's financial position depended on how things were handled at Canajoharie.

Bruce McIntosh had been at Canajoharie for over 10 years and had worked in the Quality Assurance section for most of that time. As the in-house expert on regulatory requirements of the FDA and other government agencies, McIntosh was responsible for ensuring that all products conformed to government as well as company standards. He oversaw the sampling of raw material deliveries for flavor, color, and quality characteristics, as well as the testing of finished goods. He was also chairman of the Recall Committee. McIntosh reported to Storer.

McIntosh's Story

Andersen telephoned McIntosh and asked for the facts. He had a number of questions, since he knew little about apple concentrate, other than that it went into the company's apple juice. Echoing Shore, McIntosh said that a detective had arrived unexpectedly on Friday and had told Storer and everyone else in hearing of the reception area that Beech-Nut had been defrauded. Storer had spoken briefly with the detective before calling for others, including McIntosh, to hear what the detective had to say.

The detective, investigating on behalf of the Processed Apples Institute (PAI), a trade group representing domestic manufacturers of apple juice concentrate, explained that the PAI had suspected concentrate adulteration for some time. Dilution with water or the addition of sugars or chemicals was likely, he thought. The PAI had retained the detective to keep several companies under surveillance including Universal Juice Company (Universal), a Beech-Nut supplier. Concurrently, the PAI had been working with a laboratory in Florida to develop tests to identify adulteration. Coincidentally, just as the detective, working through Universal's dumpster, had failed to find invoices for apples, the laboratory had developed a test for beet sugar adulteration. Using this test on Universal's concentrate, PAI scientists had found it to be adulterated. The detective had then followed Universal's truck to Beech-Nut and confronted its officers with his claims.

McIntosh was suspicious of the PAI's motives. As he indicated to Andersen, he felt the organization was out to protect domestic apple growers whose products were often rated lower on taste and authenticity than overseas products.

Andersen asked about the supplier. Universal Juice Company had been Beech-Nut's major apple juice concentrate supplier since 1977. McIntosh reported that Universal's concentrate was made from Israeli apples and blended to Beech-Nut's requirements at a plant in Queens, New York. Beech-Nut had checked the concentrate regularly. Given the large quantity involved, noted McIntosh, only a small amount had ever failed the tests.

It had been difficult to find alternative suppliers capable of meeting Beech-Nut's requirements for taste, color and quality. The concentrate was not bought directly from Universal but through a broker, Jerry Sunshine, of Imperial Juices. Universal's concentrate was 20% to 25% cheaper than concentrate available from other suppliers.

Testing for Adulteration

Andersen did not know very much about methods of testing for apple juice adulteration. McIntosh explained that over the years, Beech-Nut's research team had worked on many tests to ensure the authenticity of apple juice but had not found one that was fully satisfactory. Without knowledge of what additives (sugar or chemicals) might have been used to adulterate a product, there was no conclusive test for purity. Unless they squeezed the juice themselves, researchers could not be sure the juice was pure. Various tests did allow researchers to verify certain aspects of the concentrate, such as the sugar ratio, the amount of riboflavin, or the level of amino acids. However, atypical ratios for these constituents did not offer proof positive of adulteration since different results were possible, depending on where the fruit was grown, whether the sample was fresh juice or concentrate, and its age when tested.

McIntosh said that the PAI test which had led to Friday's incident was that of a private laboratory and had not yet been adopted by either the FDA or the Association of Official Analytical Chemists. He expected that it would be some time before the PAI test would be officially adopted, if ever.

Precautionary Action by Beech-Nut

McIntosh mentioned that over the years the company had taken steps to protect itself against phony product from Universal. Every purchase order contained specifications of Beech-Nut's requirements. McIntosh read out the exact wording:

No chemicals, biological or other agents considered as intentional food additives shall be used in manufacturing, processing, packaging or storage of this product without the explicit knowledge of Beech-Nut Foods Corporation.³

In response to concerns about authenticity that had arisen in 1978, Beech-Nut had insisted that the principal of Universal sign a "hold harmless agreement" to compensate Beech-Nut for any losses it might incur if Universal's concentrate should prove impure (**Exhibit 3**). The company had never received a single consumer complaint about its apple juice products.

McIntosh Continued . . .

According to McIntosh, Storer had been quick to accept the detective's report. Without asking for verification and before the detective had mentioned the supplier's name, Storer announced that Beech-Nut would immediately sever its ties with Universal. Storer agreed to give the detective a sample of a current apple juice product, a move with which McIntosh had disagreed. McIntosh had suggested to Storer that the decision to join the PAI lawsuit was one for the president.

Andersen's Reaction

When Andersen finished talking with McIntosh he was feeling better about the situation. He was reassured by McIntosh's report that concentrate supply had been regularly tested and that Universal had been a long-standing supplier. He trusted McIntosh to handle these matters and relied on his judgment. By the time Andersen telephoned Storer, he had decided that McIntosh, as the head of quality control and chairman of the Recall Committee, would be the contact person for this situation.

³ This purchase order was prepared prior to Nestle's purchase of the company in 1979, and so used the former name of the company.

Discussion with Storer

Tom Storer was in charge of Beech-Nut's two production facilities. A Canajoharie native, he had joined Beech-Nut on graduating from college 30 years earlier and had worked his way up through the company. Based at the Canajoharie plant, Storer reported directly to Andersen at company headquarters in Fort Washington, Pennsylvania. Despite the direct reporting relationship between Andersen and Storer, the physical distance between them assured Storer had a great deal of discretion in running the plants.

A number of people reported directly to Storer including the plant managers and those responsible for companywide concerns such as quality assurance, product development and research (see **Exhibit 4**). Although Storer was not concerned with day-to-day plant management, he was involved in all decisions with a direct impact on profitability. For example, he had to approve a decision to accept any bid other than the lowest obtained for an acceptable product.

When Storer received the call from Andersen, he was surprised at how much the CEO knew. Instead of being the provider of information, Storer found himself receiving instructions. Andersen told Storer to get the purchasing people to organize new suppliers and to contact Nestle immediately if there were any difficulties. He reminded Storer that all the resources of Nestle were available to Beech-Nut. Storer, unlike McIntosh, did not have any views on the PAI. He just knew that it was a trade association for domestic suppliers and not an association that Beech-Nut could join.

Apple Juice Testing

For Storer, the Friday afternoon incident was yet another in a series of commentaries—some favorable, some unfavorable—on the purity of Beech-Nut's apple concentrate. He did not discuss this background with Andersen when he called.

The first questions about concentrate purity had surfaced in 1978 when, prompted by abnormalities revealed by testing, Beech-Nut researchers had sent apple juice samples to California for SIRA (Stable Carbon Isotope Ratio Analysis) testing. The results suggested the juice was adulterated with corn or cane sugar.

When Storer heard about these results, he had sent two employees to inspect Universal's facilities for blending Israeli apple concentrate to Beech-Nut's standards. However, the employees had found only a warehouse and not the tanks, pumping and mixing apparatus they had expected to see. Storer had taken steps to reconfirm the written contractual requirement that the concentrate be 100% pure with no added sugar and instructed Purchasing to include this requirement on every purchase order. At McIntosh's suggestion, Storer had taken the further precaution of having the principal of Universal sign the "hold harmless" agreement to protect Beech-Nut from legal claims.

The visit to the blending facility had occurred about the same time that Jack Hartog, Beech-Nut's former supplier of concentrate, had warned the company that there was some phony product on the market. Suspecting that Hartog was bitter about losing his contract with Beech-Nut after many years as a supplier, Storer had not taken much notice of this warning. Industry concerns about the authenticity of the product had also been circulating in late 1978-early 1979, but such rumors were not unusual.

Meanwhile, Beech-Nut continued to test the concentrate it received. Mostly the results were satisfactory, but in 1979, SIRA testing indicated that the concentrate was almost pure sugar syrup. In July that year, Bradford Roberts, the Production manager at the San Jose plant, asked Storer what to do with the phony concentrate. Storer responded with a memo advising Roberts to use it in the

mixed fruit juices but not in the pure apple juice. Since later testing indicated no problems, Storer concluded that the supplier had understood Beech-Nut would not put up with anything other than pure juice.

In that same year, a *New York Times* article had ranked Beech-Nut's apple juice the best on the market and the only one out of 13 samples tested that met the *Times*' criteria as 100% apple juice using both official and experimental FDA tests.⁴ Quoting industry officials who acknowledged adulteration problems in the industry but questioned the validity of the tests, the article also reported that the FDA was aware of the problems but had determined that no public health issue was involved. The article quoted an FDA spokesman who indicated that the agency was continuing to work on better testing, adding "We wouldn't take anyone into court on the basis of a single test, but we are constantly in the process of testing to determine which battery of tests could be considered conclusive."

Tests by Nestle scientists in 1980 had concluded that Beech-Nut juices were excellent and superior to those sold by Heinz or by Gerber. Then in August 1981, Storer had received a copy of a memo prepared by Norm Haskins, head of Research and Development, summarizing Haskins' concern about concentrate purity.

. . . While all this evidence is circumstantial, it does paint a grave case against the current supplier . . . It is imperative that Beech-Nut establish the authenticity of the apple juice concentrate used to formulate our products. If the authenticity cannot be established, I feel that we have sufficient reason to look for a new supplier. While I realize that this may result in a tremendous cost penalty, we must take whatever action is necessary to ensure that we are utilizing unadulterated juice.

Haskins's Doubts

Haskins had been concerned about the Universal concentrate for some time. He began to be suspicious after the 1978 SIRA tests showed adulteration with corn or cane sugar. Later tests indicated the Universal concentrate was pure. However, when Beech-Nut informed Universal in 1978 that its concentrate supplies would be tested regularly, Universal pointed out that the SIRA test could not detect beet sugar. Previously unaware of this fact, the SIRA laboratory researchers confirmed it by conducting further experiments.

The fructose/glucose ratios from the concentrate were also nonstandard. They were not 2-3 to 1, the ratio found in apples the research section had crushed for experimental purposes or found in other concentrates discussed in the literature. The Universal ratio was 1 to 1. Haskins realized that these ratios were not a definitive measure of authenticity, but he was also concerned because the concentrate's sugar profile resembled invert beet syrup. It contained two post-sucrose unknowns which had not been previously recorded in tests or found in other samples of apples or apple juice.

The Universal concentrate also had very low amino nitrogen levels. While this in itself was not conclusive, the amounts of the specific amino acids, aspartamine and glutamine, were completely atypical of the levels found in other products. In addition, the riboflavin content of the concentrate was 10 to 100 times lower than that found in other concentrates.

⁴ Patricia Wells, "Apple Juices: Popular But Are They Real?" *The New York Times*, October 31, 1979.

Haskins's suspicions were further fueled by the favorable price of the concentrate. Universal's concentrate was only slightly cheaper than others on the market when first purchased in 1977. But by 1982 it was up to 25% less than others, making a saving of \$1.25 to \$1.75 per gallon.

Storer's Reactions

Storer ignored Haskins's memo and criticized him for disloyalty and not being a team player. Storer referred to Haskins's scientists as "Chicken Little."⁵ In his appraisal of Haskins's performance, Storer commented that Haskins's judgment was "colored by naiveté and impractical ideals."

Storer pointed to plausible explanations for Haskins's findings and for the concentrate prices. Overseas concentrates, like the Israeli concentrate Beech-Nut purchased from Universal, were often cheaper than domestic products, particularly if domestic products had to be transported across the country. Universal's concentrate was also more condensed and thus could be transported more cheaply. In addition Universal's price and product were comparable to that of a second supplier found in 1981. This supplier's concentrate came from Argentina, had fructose/glucose ratios very similar to the Universal product, and was priced competitively.

In December 1981, a few months after receiving Haskins's memo, Storer received an unsolicited report from Nestle. The translation read ". . . apple juice is false, cannot see any apple." Storer reviewed the report and had one of his aides send it to Universal. But Universal made no response, and Storer did not follow up.

Throughout, Storer had taken the position that unless adulteration could be proven in a court of law, he should not terminate the supply contract with Universal or take any steps that could jeopardize the company's financial position. Besides, there were rumors that other companies were selling adulterated juice.

Contact with Attorneys

After talking to Storer, Andersen's next call was to the Maltby & Kelman law firm in Washington, D.C. Nestle had previously recommended the firm to Andersen when Beech-Nut had needed legal assistance. Andersen's earlier contact with the firm had been satisfactory, and he had retained Robert Maltby on a personal matter regarding his son's use of a trail bike.

Since Maltby was away, Andersen spoke with another lawyer, Ed Donovan. Andersen asked Donovan to collect information from Shore, McIntosh, and Storer and from the attorney representing the PAI, and then to contact Maltby in Europe for advice. Andersen's particular concerns were whether the company could continue to sell its apple juice products and whether it should join the trade association's lawsuit against Universal.

The next day Andersen received a telex from Donovan recommending that Beech-Nut get as much information as possible from the PAI attorney before making a decision about joining its lawsuit. Donovan advised that it would be wise to cooperate fully, but without definitive proof of adulteration and in order to avoid publicity, he suggested Beech-Nut not take any action at this time.

Donovan further recommended that Beech-Nut should immediately contact its apple juice concentrate broker, if it had not already done so, and return as much unused concentrate as possible. Beech-Nut should not purchase any additional product from Universal, its subsidiaries, or any

⁵ "Chicken Little," a nursery story character, believed that the sky was falling when an acorn fell on her head.

company associated with it. The telex did not address the inventory issue. The next day, Andersen was relieved to get a call from Maltby, still in Europe. Andersen asked whether Beech-Nut could continue to sell juice from finished inventory. Maltby replied that, based on the information he had available to him, Beech-Nut could continue to sell.

Andersen's Decision

Andersen reflected on the situation and the inventory of finished apple juice products. So far, Beech-Nut had not substantiated the detective's claims. It would be several weeks before the regulatory authorities could corroborate the PAI tests. Beech-Nut's warehouses held about 700,000 cases of finished product containing apple juice concentrate—about eight weeks' supply of product.

Exhibit 1 Financial Summaries and Projections

	(\$000 U.S.)					
	1980		1981		1982	
	Actual	%	Actual	%	Estimate	%
Volume (in cases)	12,689		14,066		16,403	
Revenue	66,666	100	78,712	100	99,492	100
Marginal contribution	19,976	29.9	21,977	27.9	28,884	29.0
Operating profit	(1,150)	(1.7)	(339)	(0.4)	1,557	1.6
Net profit	(1,920)	(2.9)	(1,072)	(1.4)	747	0.8

Source: Company document, "Management Reporting Package" for December 1981.

Exhibit 2 1981 Sales and Results by Division^a (US \$000)

	1981			
	Domestic	Military	Export	Puerto Rico
Cases equivalent	11,632	375	1,420	639
Sales revenue	67,349	2,017	6,609	2,737
Marginal contribution	19,059	378	1,872	668
–percent	28.3	18.7	28.3	24.4
Operating profit ^b	(715)	(58)	521	(87)
–percent	(1.1)	(2.9)	7.9	(3.2)
Operating profit ^c	(399)	(68)	335	(207)
–percent	(0.6)	(3.4)	5.0	(7.6)

Source: Company document, "Management Reporting Package" for December 1981.

^aBeech-Nut has four sales divisions: Domestic, including nonfood items (food going to nongrocery store chains such as Toys "R" Us); Military Sales; Export; and Puerto Rico.

^bOverheads allocated on a sales revenue basis.

^cOverheads allocated on a case basis.

Exhibit 3 Purity Certification and Hold Harmless Agreement

Interjuice Trading certifies the purity of apple juice concentrate as supplied to Beech-Nut Foods Corporation as defined in Beech-Nut Raw material Specification, Code Number 4006, issued 2/21/78, approval number IN-84. Purity includes but is not limited to the absolute absence of any added sweeteners such as sucrose, fructose and glucose, or any other added materials which are not inherently present in concentrated juice extracted from apples.

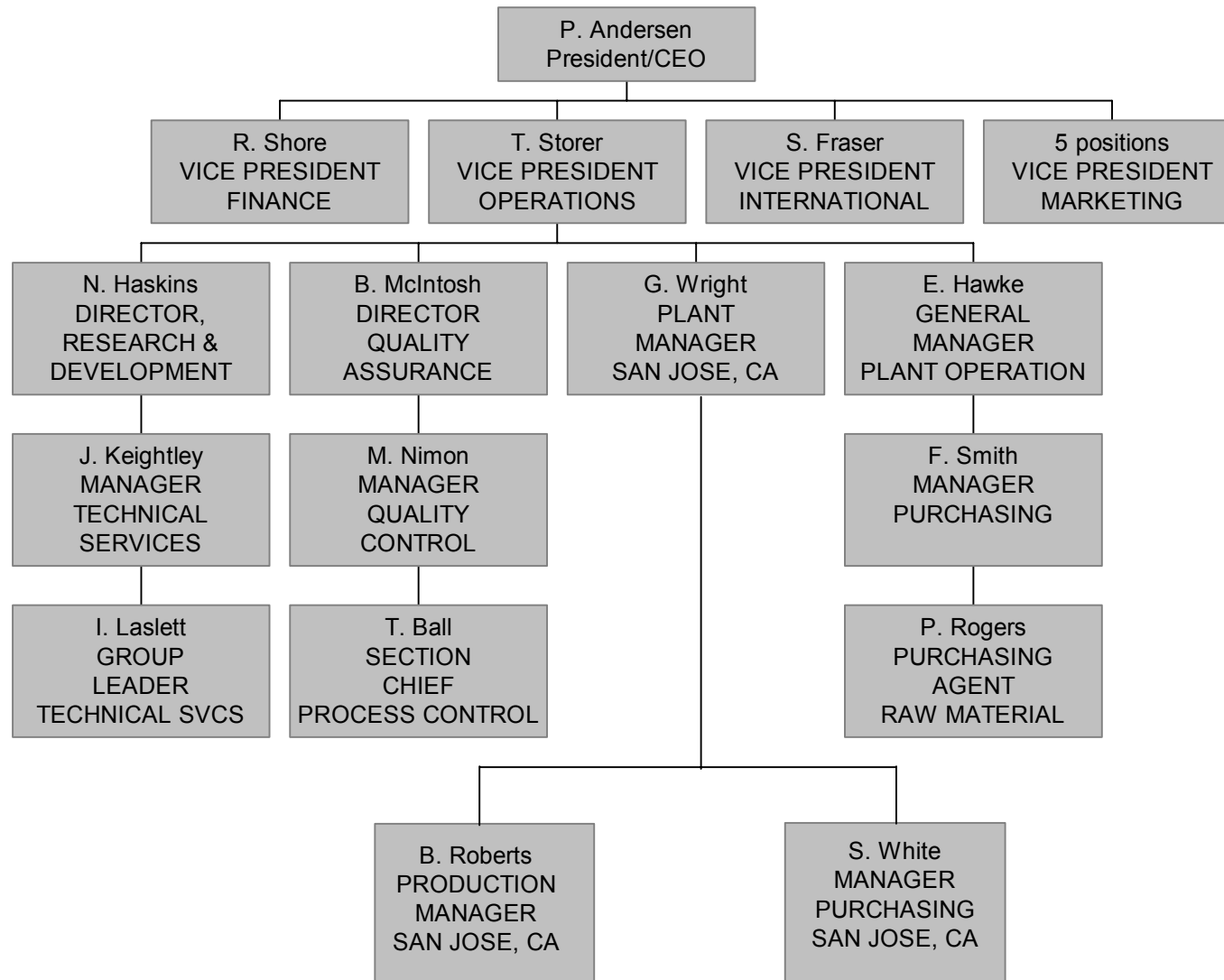
Interjuice Trading acknowledges Beech-Nut Foods Corporation's expressed concern for the purity of Beech-Nut baby foods and Beech-Nut's large investment to promote same for infant consumption. In the event the apple juice concentrate supplied to Beech-Nut by Interjuice Trading is proven to be impure or adulterated, especially with added sweeteners, and Beech-Nut food products, Interjuice Trading will hold Beech-Nut harmless to the fullest extent possible from adverse regulatory actions and/or loss of consumer good will [sic]. The process of holding Beech-Nut harmless for costs associated with Beech-Nut's defense against regulatory actions, legal proceedings, court judgments, market rectification, unmerchantable product, stock adjustments, sales losses and other related expenses.

Beech-Nut Foods Corporation

Interjuice Trading

Thomas F. Storer
Vice President, Operations

Y. Jovanovich
Vice President

Exhibit 4 Organization Chart (Relevant Sections Only)

Source: Prepared by casewriter based on company documents.