Case 12: Tobacco Leaf Processor (I of III)
Booz Allen - Home Team, Round 1

Problem statement narrative	Guidance for interviewer and information provided upon request[(1)]
Tobacco is a commodity and revenues in the tobacco industry are flat. See Exhibit 1 for value chain. The #2 and #3 tobacco leaf processors are considering a merger. The new merged company will be 75% of the #1 company. Over the past five years, #2 has had flat revenues and slight profitability. #3 has had declining revenues and profitability. Both are global organizations with operations, plants, and distribution at a global level. They overlap in most, but not all, markets. What factors should the firms consider in determining whether to merge? What are the opportunities and barriers?	Market: Only one product and one segment. There are 4-5 end consumers that purchase processed tobacco leaf (e.g. Philip Morris). Competition: #1 has a total market share of 35-40%. Besides the top three players, there are 5-6 much smaller firms. There has been no innovation in tobacco leaf processing for many years. Organizations: #2 is highly centralized with a bureaucratic structure. #3 is decentralized and entrepreneurial.

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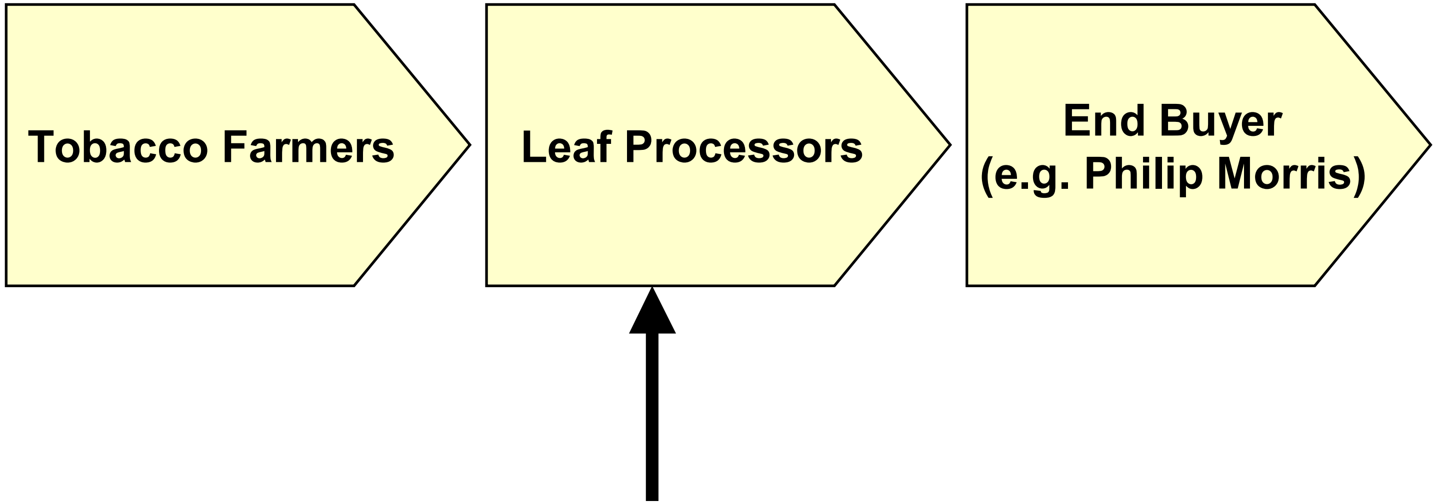

This is the part of the supply chain that we are concerned with.

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Opportunities	Barriers
Synergies: merged company can cut redundant costs (they have market overlap). Lack of industry innovation makes cost cutting a promising competitive tactic. Candidate should be able to see that the benefits of the merger is driven by cost not revenue.	**Management / Organizational** issues due to very different cultures. What can #2 and #3 do to mitigate this? • #2 will have more power in the merger. (Mergers are often not of equals. In this case, #2 is bigger and more profitable and thus more powerful.) • #2 will not be likely to want to change culture much (it didn’t help #3 with profitability), but #3’s entrepreneurial culture may help with innovation. • Open forums pre-merger to manage expectations of merged culture. • #2 should be open to valid suggestions from #3. • #3 should have clear role/stake in merged organization. • Retention issues likely with culture shift, no matter how expectations are managed. **Competition** • Merged company will have ~30% market share (75% of #1’s 40% market share). • #1 may feel threatened → #1 may engage in tactics to protect market share. **Macro: Regulatory Issues** - Globally, the merged company will be #2 in market share, but in some countries, it will be #1. This raises regulatory/monopoly issues that the merged company may need to contend with.