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Corporate Spies; The Pizza Plot

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Almost every Fortune 500 company these days has a "competitive intelligence" (or C.I.) unit or farms out its spy activities. Coca-Cola, 3M, Dow Chemical, General Electric and Intel all maintain a staff dedicated to uncovering what business rivals are up to. Motorola hired away a star from the Central Intelligence Agency to create its corporate intelligence division. Ernst & Young, the accounting firm, boasts a 25-member competitive intelligence arm.

Although the word "espionage" conjures images of shady characters in overcoats who are hired to steal nuclear secrets, today's corporate spies are decidedly less glamorous. For one, they are hired to find out prosaic things like a company's marketing plan, the state of its R. and D. or a factory's production capacity. (Valuable, yes, but not sexy.) And instead of fancy gizmos like exploding pens and secret decoder rings, often all they need to get the job done is a telephone.

When companies don't have in-house C.I. units, they often turn to independent consultants, most of whom received their training from the Department of Defense, the C.I.A. or the F.B.I. Three years ago, Schwan's Sales Enterprises, a food company based in Marshall, Minn., hired a consultant who runs his own firm. Schwan's wanted to find out about a new product that promised to revolutionize frozen pizza. The target was Kraft, the largest packaged-food company in the country. It already sold pizza under the brands Tombstone and Jack's and had perfected a new type of "rising crust" pizza it had been test-marketing under the name DiGiorno. It was the winter of 1997, and up to then it was often hard to taste the difference between a frozen pizza and the cardboard box it came in.

Schwan's, which marketed store-bought pizza under the brand name Tony's, already knew the secret behind DiGiorno: pumping yeast into the raw crust, which Schwan's was also working on with its rising-crust pizza offering,

Freschetta. If Schwan's was to have any chance against its hulking rival, however, it would have to know how fast Kraft planned to roll out DiGiorno nationwide, so that it could create a counterstrategy. To do this, the company had to learn the production capacity of a plant it knew Kraft had constructed somewhere in Sussex, Wis. Specifically, Schwan's needed to know the type of equipment the plant housed, the number of production lines, what types and sizes of pizzas were being produced there and, most important, how many pies were coming off the assembly line each day.

Schwan's needed the information fast, but the consultant knew it would be nearly impossible for him to get it without resorting to subterfuge. As a member of the Society of Competitive Intelligence Professionals, or SCIP, the C.I. industry's governing body, the consultant knew he was supposed to abide by rules that prohibit misrepresentation or deception when interviewing a target on behalf of a client. SCIP stresses the "ethical" acquisition of information "from publicly available" or "open source" materials like published documents, public filings, patents and annual reports. The purpose of SCIP's spin control is to make industrial spying more palatable to P.R.-conscious corporations. It also makes spying more difficult.

This doesn't mean that breaking SCIP rules is against the law. The Economic Espionage Act of 1996 was passed to deal with foreign agents stealing trade secrets from American companies. But "to prove trade secrecy theft, you first have to prove there is a trade secret," says Mark Halligan, a Chicago lawyer and author of "Trade Secrets Case Digest." The formula for Coca-Cola and the source code for Microsoft Windows are trade secrets. Factory production, the information Schwan's wanted, isn't, and this loophole allowed the consultant, and the 7,000 other members of SCIP, to earn a living.

The consultant decided to subcontract the work to a "kite" or "go-to guy," who, in addition to being able to get the information the job required, would provide the consultant with plausible deniability. The consultant could fly the kite out there and let him do whatever needed doing to get the information, but if he got caught, the consultant could claim he had no idea what his subcontractor was up to. With Schwan's eagerly awaiting the information, the consultant hired one of us, Marc Barry, founder of the corporate intelligence firm C3I Analytics of New York, who had gotten the job done for the consultant half a dozen times in the past.

Barry, an Irish, streetwise redhead in his early 30's, had made a name for himself as an expert "humint" (human intelligence) man. Working undercover for years at a time, he had infiltrated Asian organized crime networks that controlled the distribution of counterfeit goods in the United States, as well as tracked phony pharmaceuticals and airplane parts. To Barry, collecting intelligence on companies was a snap compared with gathering information on violent gangs.

After doing some initial Internet research, Barry bought a $10 prepaid phone card from a nearby grocery so his calls couldn't be traced. He set up bogus voice-mail and fax-forwarding lines with a company called American Voice Mail. Both accounts were created under the 414 area code, which covered Sussex, Wisc. This way, Barry could collect his messages and faxes from his office in New York, yet his targets would be under the impression he was local.

Barry figured someone in the Sussex town government would know details about the plant. "Politicians are easily manipulated because they are usually eager to take credit for things," Barry says. He phoned the Sussex Chamber of Commerce and posed as a reporter from The Wall Street Journal. It took him one minute to get the address of the Tombstone pizza plant, located on Sussex Road. Then he dialed the Sussex town assessor's office, where he learned from an employee that Kraft was being assessed taxes for a new 143,914-foot plant.

Barry knew that, America being America, Kraft wouldn't be able to begin construction of its plant without permits, so he created a persona, an environmentalist he called Curtis Walton. He wrote it down because often at the end of a phone conversation a person will ask, "What was your name again?" and he didn't want to forget. (It had happened before.) Barry dialed the fire department and town building inspectors, since both usually have blueprints for local manufacturing plants. He claimed he was calling on behalf of an environmental advocacy nonprofit organization called EcoNet and was researching an article about excessive floral hydrocarbons being emitted from the Sussex plant for The EcoNews. The fire department didn't bite, and the building inspectors weren't in. After several calls, Barry managed to get a secretary at the building inspector's office on the line, who told him there was nothing she could do until her boss returned.

"But I'm on deadline," Barry cum Walton said. "Isn't there anything you can do?"

"My boss is so much better at reading these plans than I am," she said. "I'm afraid I'd miss something."

"Any help you could give would be greatly appreciated."

"I really should wait for my boss."

"But it will be too late by then," Barry said, letting a tinge of desperation color his voice. "And I just don't have the time to drive out to you and pull the plans myself. You know how deadlines are." Eventually Barry wore her down. As she read off the contents of the plans, even though he was recording the conversation, Barry scrawled notes just in case there was a glitch with the tape recorder. "This was not a new plant, but rather additions are being added onto an existing plant," the secretary informed him. This made sense. To keep transportation costs down, Kraft would want to keep its pizza production in a centralized location, and close to key ingredients. "The 143,914-square-foot

addition was designed by Stahlman Engineering of New London, New Hampshire-"

"Stallman? How do you spell that?" Barry asked.

"S-t-a-h-l-m-a-n."

She recited the details the expansion permit covered: additional warehousing, more bakery space, a new recycling building. When she got into the nitty-gritty of what equipment was going to be housed in the new facility, Barry peppered her with questions and began to draw a map.

"Three compressor rooms," she said, "a 10-below-zero freezer and high-rise freezers -"

"How many?"

"Two. A label paste room, meat cooler and cheese coolers, a chemical storage room, something called a vestibule conveyor belt system, bakery waterfall oiler, several sauce and topping lines -"

"How many sauce and topping lines?"

"It doesn't say."

"O.K., go on."

"A Grotter PepperMatic, four spiral freezers -"

"How far from the conveyor belt are the freezers?"

"Around the corner, about eight feet away, a wheat dock, a loading dock -"

"How big is the loading dock?"

"Um, 1,906 square feet."

"Where is it?"

"It's been relocated between the bakery and the recycling room."

Delighted by his score, Barry thanked the secretary and hung up. Four spiral and two high-rise freezers? A 2,000-square-foot loading dock? A bakery waterfall oiler? Although Barry didn't know anything about pizza production, Schwan's certainly did and would be able to make good use of this information.

But Barry wasn't done. Now came the tricky part: how would he be able to measure how many pizzas the plant was producing daily? He mulled over a strategy. What, he wondered, do all frozen pizzas require? Labels. How would he track labels though? Besides, there were at least three different styles of pizza. Cheese? No way. Too complicated. Kraft used tons of it, and didn't it

manufacture a four-cheese pie? Besides, cheese could be stored for a while, so it wouldn't be much use in trying to figure out how many pizzas came off those conveyor belts. Wheat? Yeast? Oil? Nah, those wouldn't do it. The cardboard boxes? Maybe, except that Tombstone pizzas were packaged in shrink-wrapped plastic, not in a box. Then it came to him: diskettes. Every pizza, whether it came in a box or in shrink-wrapped plastic, sat on a round, cardboard diskette. This was the one constant.

Barry picked up the receiver and dialed the Sussex plant. He asked for "accounts payable" and got a voice-mail line. Immediately he punched zero, and when an operator picked up he requested "accounts receivable." After another voice mail he ordered the operator to hook him up with the "purchasing department," where an older woman picked up. "Hi, this is Bobby Royce," Barry said, looking at the name he had just scrawled in his notebook, alongside a fictitious company. "I'm president of Presidential Corrugated Box."

"What can I do for you, Mr. Royce?" the woman asked cheerfully.

Good, Barry thought. "Well, you see, I own a cardboard manufacturing plant, nothing too big, mind you. A local family business. And I figured since I was a local business and you're a local business, well, maybe we could do business together."

"I dunno, sir," she said. "We use an awful lot of cardboard."

"Hmm, I see. What do you think you'd need. Ten, 20 thousand units a month?"

"Oh, no, we'd need more than that."

"How much more?"

"A lot more. We go through hundreds of thousands of units a day. We use Weyerhaeuser. They're the largest."

Barry tried to sound disappointed. "Weyerhaeuser, huh? That's way too much output for our plant. But in case you get any spillover and need more, I'll send over some literature."

He got off the phone and logged on to the Internet, where he plugged Weyerhaeuser into Yahoo's search engine to locate its corporate Web site. One call to Weyerhaeuser's corporate headquarters and he was given the number of the White Bear Lake facility near Minneapolis, the plant that serviced Wisconsin. He posed as an employee of the purchasing department of Kraft's Tombstone pizza plant who had just taken over the account and claimed there was a discrepancy on some paperwork. He asked how many boxes and disks Weyerhaeuser had shipped to the plant in the last month. But the number the accounts payable department gave him -- the equivalent of a few hundred thousand a day -- was too low when compared with what the woman from the

purchasing department had told him. It didn't make sense. Barry dialed the Kraft Tombstone loading dock.

After a few rings, someone picked up, and Barry could hear heavy machinery grinding in the background. Reprising his role as Bobby Royce, Barry and the Tombstone worker fell into small talk. Barry figured the guy must be a Green Bay Packers fan, so he pretended the Minnesota Vikings, whom the Packers were scheduled to play that week, were his favorite team. The conversation shifted from the Packer legend Vince Lombardi to the right kind of thermos for Wisconsin winters to who manufactures the best work boot. Barry, who had worked as an undercover agent on dozens of loading docks for cargo theft investigations, said he liked Timberlands, but his new friend wore Wolverines.

Finally, Barry started asking questions about cardboard, specifically how much of it was handled by the loading dock. But the dock worker gave him a number even lower than the one Weyerhaeuser had supplied. Now Barry was really confused.

"They come in only once or twice a week," the guy said, trying to be helpful.

"What do you mean?" Barry asked.

"We recycle the boxes."

"I don't get it. You sell your pizzas in the box, right?"

"These are different boxes. These ones get used four times each. We use them to ship the crusts up from Little Chute."

"What the hell is Little Chute?"

"Our crust-manufacturing plant. But we're not going to be using cardboard for much longer. We've started moving to plastic for interplant shipping, which doesn't have to be recycled." He told Barry the Little Chute factory made most of the crusts, although some came from the Sussex plant, which is where Kraft manufactured the pizzas.

"So," Barry asked gently, but taking a more direct approach, "how many pizzas are we talking about here?"

"Since September, about 300,000 pizzas per day at the Sussex plant," the man said, blithely unaware of the value of the information he was giving up. "That includes the 12-inch Jack's Pizza, as well as 8- and 12-inch DiGiorno."

This was the number Barry had been looking for. Without letting on to his target that he'd been taken, Barry calmly continued with small talk, thanked his new friend and got off the phone. Then he lit up a macanudo and fired up his espresso maker, pondering what this information meant, and what his next step would be.

He realized that knowing the number of pizzas the Sussex plant was producing right now -- its operating capacity -- wasn't enough. He needed to find out its full production capacity. This would tell his client how many rising-crust pizzas Kraft could potentially make at any given time.

Barry donned his next phone disguise -- that of a graduate student working on a research paper on food production -- and dialed the Sussex plant's production lines manager. After making his pitch for academic assistance, Barry said: "I know you are cranking out 300,000 pizzas a day. How many production lines is that?"

The answer was five, but only three ran at any one time. Barry did some quick number-crunching in his head and calculated that Kraft's Sussex plant was operating at 60 percent of capacity, and that Kraft could increase pizza production to 500,000 pizzas a day. The manager also told Barry that DiGiorno wasn't the only rising-crust pizza Kraft planned to market. It had subcontracted the manufacture of rising crusts to Nation Pizza in Chicago for Tombstone, another hot-selling line.

Now this was big, Barry realized. The potential production numbers, coupled with its plan to market rising-crust pizzas under two brands, indicated that Kraft hoped to flood the market and establish itself as the primo player in rising-crust frozen pizza. If the information that Barry sucked up showed that Kraft was taking its time in bringing rising-crust pizzas to market, Schwan's could afford to move slowly. But since Kraft was diving headlong into the rising-crust market, Schwan's had no choice but to be aggressive.

Though Schwan's entry, Freschetta, was a new brand, the company decided to take a chance and plow resources into production and marketing. The information that Barry provided turned out to be key to Freschetta's ultimate success. Although DiGiorno was the first of the rising-crust pizzas, Freschetta became an immediate contender, spurred on by an intensive media campaign. Rising-crust pizzas became the fastest-growing food category and now account for more than 30 percent of frozen-pizza sales in the United States -- about $2.3 billion. DiGiorno quickly became the No. 1 selling pizza in the nation, but the covert information helped Freschetta rise from No. 6 to No. 2 by the end of 1999. And all it took was a day and a half worth of phone work by Marc Barry.

Organizations mentioned in this article:
Schwan's Sales Enterprises Inc; Kraft Foods

Related Terms:
Pizza Pies; Industrial Espionage; Marketing and Merchandising; Frozen Foods