**Ben & Jerry’s Homemade**

Teaching Note

This case examines issues of asset control for Ben & Jerry’s Homemade, Inc., in light of the outstanding takeover offers by Chartwell Investments, Dreyer’s Grand, Unilever, and Meadowbrook Lane Capital in January 2000. The case provides a unique opportunity to discuss fundamental firm objectives and the implications of poor financial performance as it reviews the development of Ben & Jerry’s strong social consciousness and the takeover defense mechanisms that maintain management’s control of company assets. Taking the role of an outside board member, students may review management’s performance, estimate the economic cost of current management practice, and evaluate the implications of takeover defense strategies. Ultimately, students must take a position on whether the board should defend the agenda of the current management team or accept one of the takeover offers and support a shift toward a more traditional orientation.

The case provides opportunities for the instructor to develop any of the following teaching objectives:

* Establish the importance of financial performance for a firm in a public capital market.
* Stimulate an appreciation for the tension regarding asset control among corporate stakeholders.
* Evaluate the role of corporate takeovers and the merits of takeover defenses.
* Introduce corporate valuation using investor multiple measures.

The case requires relatively little prior knowledge of finance, and it largely provides a stimulating introduction to the principles of a traditional corporate finance curriculum.

**Sample Student Study Questions**

1. How has Ben & Jerry’s fulfilled its mission statement? What evidence can you provide regarding Ben & Jerry’s performance on each of the three dimensions of the mission statement?
2. How did Ben & Jerry’s become a takeover target?
3. Do you think the current takeover offers are justifiable? What might Ben & Jerry’s be worth to the bidders?
4. Should Henry Morgan defend the agenda of the current management team or support one of the acquisition offers?

**Suggested Supplementary Readings**

This case introduces many of the fundamental principles of corporate finance. Little prior knowledge or supplementary reading on the part of students is required. Instructors may consider reading Cohen and Greenfield’s *Ben & Jerry’s Double-Dip,* published by Simon and Schuster, as it provides a fascinating and entertaining review of the development of Ben & Jerry’s Homemade and its founders’ business philosophy.

**Hypothetical Teaching Plan**

1. *What decision does Morgan face?*

The members of the board must choose either to defend the ongoing agenda of the current management team or to encourage a change in asset control by supporting an outside takeover offer. Because most of the board members are part of the management team and Morgan has been associated with the founders for some time, a vote for a change in control is likely to be hard to make. As a member of the board, Morgan does have a fiduciary responsibility to his shareholders. If the case is used as a course opener, the instructor may find it attractive to avoid the details of the various offers by focusing on the highest and, arguably, the most interesting offer, the Unilever offer of $36 in cash. The instructor can close this discussion with a class vote on the Unilever offer.

1. *How did Ben & Jerry’s become a takeover target? Hasn’t Ben & Jerry’s been successful in fulfilling its mission statement? Would you support a takeover?*

The objective of this portion of the discussion is to establish that, at first pass, Ben & Jerry’s appears to have been successful across all but the financial dimension. The instructor may begin by asking students to summarize Ben & Jerry’s mission statement. The instructor can then survey the class by asking students to grade management on its performance across corporate objectives. The grades become management’s report card. Generally, students give management good marks on the product and social objectives (A’s and B’s) and less favorable grades on the economic objective (C’s and D’s). Students should be asked to defend their evaluations. Providing some support for this view of Ben & Jerry’s financial performance can be the stock market performance, return on equity (ROE) and return on assets (ROA) (relative to comparables and risk-free debt yields), and comparable investor multiples, as well as the takeover offers. The instructor may emphasize the point by discussing Ben & Jerry’s strong performance relative to other stakeholders (e.g., suppliers, employees, management). The conclusion is likely to be that Ben & Jerry’s management has received straight A’s for all but its financial performance. The instructor can close with a class vote on the takeover decision.

1. *What evidence is there that investors are dissatisfied?*

The instructor can gather evidence from those who believe that Ben & Jerry’s financial performance is poor. Such evidence includes poor operating returns (ROE, ROA), poor cumulative stock returns, and low investor multiples. One theme that could be introduced is the notion of benchmarks. The only way to state that Ben & Jerry’s performance is unsatisfactory is to have some standard with which to compare its performance. Much of the curriculum in standard finance classes is devoted to identifying appropriate benchmarks. Case Exhibit 1 suggests that Ben & Jerry’s ROE has been running on par with the yield on 30-year U.S. Treasuries. The instructor might probe the merits and faults using government debt yield as the benchmark for Ben & Jerry’s equity returns.

The instructor may also want to review the mechanics and intuition of such ratios as ROE and price-earnings multiples. In reviewing the PE ratio, the instructor might ask what level of PE would be A-level performance. For example, if Ben & Jerry’s were to achieve Dreyer’s level of PE (47.2), the implied stock price would be $50 (the Dreyer’s PE of 47.2 multiplied by the Ben & Jerry’s earnings per share in case Exhibit 1 of $1.06).

The instructor should be careful that the students do not lay all the blame for the financial underperformance on management’s social agenda. By blaming Ben & Jerry’s charitable giving, one would be hard-pressed to justify the current discounts. Rather, the point is that the discount is more likely to be associated with poor overall management of Ben & Jerry’s assets. Certain students are likely to argue that investors knew management’s agenda *ex ante*, and should be satisfied with average to below-average financial performance. In a sense, “no one buys Ben & Jerry’s to get rich.” This discussion should be encouraged and then expanded in the following discussion.

4. *Who ultimately controls the assets of Ben & Jerry’s? In general, how are assets allocated in a free-market system?*

The objective of this discussion is to establish that, in a free-market system, market forces ultimately discipline those who deploy assets suboptimally. The instructor may begin with a discussion of who ultimately controls the assets of Ben & Jerry’s Homemade. The debate is likely to focus on the founders and board, the current investors, and the potential investors of the overall capital market. The point is, in a free market, assets are allocated based on the price mechanism. Only those who are willing to pay the market-clearing price maintain the right to an asset. Investors are rarely tolerant of poor management. Even investors who are highly interested in charitable giving want their money to do the most good possible. By subsidizing a poor management team (even if that team supports worthy causes), such investors are missing opportunities to put their money to better use with better management teams that also give to charities.[[1]](#footnote-1) As the value gap widens, current investors will eventually defect as they find better alternatives for their investment money.

5. *What is the impact of the asset-control devices used by management and the state of Vermont? Do you support the use of such control restrictions?*

At this point, the instructor can review examples of takeover defense strategies. **Exhibit TN1** describes some common pre-offer and post-offer methods. This exhibit may be copied and distributed to students for use with this case. The discussion is likely to focus on the role of asset-control restrictions in protecting management from the disciplining effects of the market. Some of this protection may be warranted to discourage short-term-oriented raiders from hastily breaking up a viable enterprise. In summary, the devices may allow management to pursue long-term or non-traditional strategies, though possibly at great cost to shareholders.

6. *Could Ben & Jerry’s get straight A’s?*

This question explores the benefits of free markets. One argument is to identify examples of where corporate policy provides conflicting responses. The case mentions a number of examples of such conflicts (e.g., the restricted stock offering, the 7.5% charitable donation, product pricing, the Greystone brownie blocks, free cone day, and subsidizing Earl’s pig farm). The instructor can then tease out the “pecking order” of the three objectives. The students’ various views will reveal contrasting positions on the asset-control rights of corporate stakeholders. One might extend this discussion to other stakeholders to emphasize the apparent contrasting interests among stakeholders.

An alternative view is that proper profit maximization benefits all stakeholders. By focusing on making investors happy, management increases the size of the pie for all. On second thought, the A’s given to Ben & Jerry’s performance with respect to the other stakeholders may be difficult to justify when one considers how better management might have benefited stakeholders. By keeping the capital market happy, management gains access to the resources to make all parties better off eventually. Management teams that fail to keep capital markets happy are eventually disciplined by the market so that asset control shifts to those who can generate greater value. The lesson is that corporate managers in a free capital market must understand and respond to the capital market.

7. *Should Morgan support a takeover offer?*

Morgan is likely to share a certain level of affection for Cohen and Greenfield and their social agenda, yet he was hired to represent and defend the interests of shareholders. Gather the students’ views on how Morgan should respond. Question those students who support a takeover about their recommendations with regard to the various outstanding offers. Unilever provides the most attractive price to shareholders but is likely to be the most disruptive to Ben & Jerry’s social agenda.

If the instructor wishes to introduce multiple-based valuation procedures, the discussion may lead to exploring whether the current offer prices are high enough. One approach is to use the investor multiples of comparable firms listed in case Exhibit 6 and the financial data in case Exhibit 1 to calculate implied stock prices. **Exhibit TN2** provides a full summary of implied values using all the data provided in case Exhibits 1 and 6. The instructor should review how the analyst might weigh the wide range of estimates to obtain a single value estimate. The comparable estimate can then be compared with the pre-offer stock price of $21. If one attaches greater weight to Dreyer’s values (arguably the closest peer), the analysis suggests that Ben & Jerry’s shareholders are sacrificing tremendous wealth to subsidize management’s charitable activities. The discussion may emphasize that Ben & Jerry’s assets are likely to be worth substantially more than $36 a share.

End with a summary vote on whether to sell the company.

**Epilogue**

The Ben & Jerry’s board of directors continued to debate the offers for another two months. By early April 2000, Unilever’s offer had climbed to $43, more than double Ben & Jerry’s pre-offer market price. Dreyer’s offer and a combined Meadowbrook/Chartwell/Unilever offer had both increased to $38.

On April 12, Ben & Jerry’s board announced that it had accepted a Unilever tender offer at $43.60 a share. As part of the agreement, Ben & Jerry’s was to operate independently of Unilever’s other ice-cream operations, including retaining a separate board, purchasing Vermont milk exclusively, and donating 7.5% of profits to charity. Perry Odak was to continue as general manager, and Cohen and Greenfield were to manage the company’s brand and social agenda. Unilever agreed to provide Cohen with $5 million to launch a venture-capital firm to fund business ventures in low-income communities. Ironically, the Ben & Jerry’s acquisition was announced on the same day as Unilever’s acquisition of diet-supplement maker Slim-Fast. Unilever hoped to expand both firms’ presence in international markets. Unilever acknowledged the attractiveness of Ben & Jerry’s superpremium brand in the Unilever portfolio, which had not previously had such a product.

David Gram of the Associated Press reported Ben Cohen’s response to the takeover agreement: “I wanted the company to remain independent,” he said, his voice cracking slightly. “I tried real hard to keep it independent.” The comment came toward the end of an hour-long conversation in which Cohen spoke mostly about keeping his hope alive for injecting the business with the social agenda of helping the poor, cleaning up the environment, and doing other good works.

In late November 2000, Unilever selected French Unilever veteran Yves Couette to head the Ben & Jerry’s unit, against the will of Cohen and Greenfield. In 2001, total unit sales grew by 8%. Over the next two years, Couette continued to support select social causes aggressively, including the “One Sweet Whirled” campaign, but much of the prior social agenda was trimmed. Couette also announced some plant restructuring, including plant closures in southern Vermont. Couette expected to expand aggressively in Europe, including the opening of European production facilities.

Susan Green of the *Rutland Herald* reported in mid 2002 that Greenfield and Cohen had distanced themselves from the company to varying degrees. “Today, their faces are no longer included in the short video screened at the popular factory tours in Waterbury. Instead, the audience sees two pairs of sneakers and hears a narrator explain that the men first became friends in gym class.”

**Exhibit TN3** provides the tombstone advertisement and tender-offer details for the instructor.

Exhibit TN1

**Ben & Jerry’s Homemade**

Common Takeover Defenses

**Pre-offer Defenses**

|  |  |
| --- | --- |
| Type of Defense | Description |
|  |  |
| Supermajority | Merger approval requires abnormally high percentage of votes, usually 80%. |
| Dual class recapitalization | Firm issues a new class of equity with superior voting rights, allowing managers to obtain a majority vote without owning a majority of shares. |
| Staggered board | Board consists of three equal groups, with one group being elected each year, so that bidder cannot acquire control of the target immediately after obtaining majority. |
| Poison pill | Firm makes acquisition more costly by providing that a distasteful event (e.g., existing debt becomes due, other shareholders receive rights to buy shares at a discounted price) is triggered when a certain percentage of shares is acquired unless pill is redeemed by board. |
| Poison put | Bondholders receive right to redeem debt in the event of a takeover at a specified premium. |
| Golden parachutes | Contracts require big payoffs to existing management in the event they lose their jobs, usually in the context of a hostile acquisition. |
| Fair-price amendment | Feature restricts shareholders from owning more than a specified percentage of outstanding shares without paying a “fair price,” determined by a specified formula or appraisal by an independent organization. |

Exhibit TN1 (continued)

**Post-offer Defenses**

|  |  |
| --- | --- |
| Type of Defense | Description |

|  |  |
| --- | --- |
| Management buyout | Management and partners buy out target’s equity using debt backed by firm assets. |
| White knight | Target accepts takeover bid from friendly outside parties. |
| White squire | Target attracts friendly large stockholder. |
| Greenmail | Target firm buys back bidder’s shares at a premium. |
| Asset restructuring | Target sells assets that bidder wants (“crown jewels”) and/or buys assets that bidder doesn’t want or that will create antitrust problems (“scorched earth”). |
| Liability restructuring | Target increases the number of shareholders through an acquisition or by issuing shares to a friendly third party (e.g., initiating an employee stock exchange program). |
| Management resignation | Threatening resignation is effective in firms where a few individuals play disproportionately important roles (e.g., high-technology firms, fashion industry). |

This supplemental exhibit was prepared by Professor Michael J. Schill for use with the case “Ben & Jerry’s Homemade” (2001).

Exhibit TN2

**Ben & Jerry’s Homemade**

Implied Share Price based on Comparable Multiples

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Comparable Firm Multiple | | Ben & Jerry’s 1999 Financial Statements | | Implied Share Value |
|  | Price/Earnings | Price/Book | EPS | BPS |
| Dreyer’s Grand  Earnings  Book equity | 47.2 | 7.8 | $1.06 | $11.82 | $50.0  $92.2 |
| Eskimo Pie  Earnings  Book equity | 30.7 | 1.1 | $1.06 | $11.82 | $32.5  $13.0 |
| TCBY  Earnings  Book equity | 12.5 | 1.2 | $1.06 | $11.82 | $13.3  $14.2 |
| Yocream  Earnings  Book equity | 9.4 | 1.8 | $1.06 | $11.82 | $10.0  $21.3 |

Exhibit TN3

**Ben & Jerry’s Homemade**

Tender-Offer Announcement

*This announcement is neither an offer to purchase nor a solicitation of an offer to sell shares. The offer is made solely*

*by the offer to purchase dated April 18, 2000, and the related Letter of Transmittal and is not being made to (nor*

*will tenders be accepted from or on behalf of) holders of shares in any jurisdiction in which the making of the*

*offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In any*

*jurisdiction the securities, blue sky or other laws of which require the Offer to be made by a licensed*

*broker or dealer, the Offer shall be deemed made on behalf of the Purchase by the Dealer Manager*

*or one or more registered brokers or dealers licensed under the laws of such jurisdiction.*

***Notice of Offer to Purchase for Cash***

***All Outstanding Shares of Class A Common Stock***

***(Including the associated Class A Common Stock Purchase Rights)***

***and***

***All Outstanding Shares of Class B Common Stock of***

***(Including the associated Class B Common Stock Purchase Rights)***

***Ben & Jerry’s Homemade, Inc.***

***at***

***$43.60 Net Per Share***

***by***

***Vermont All Natural Expansion Company,***

***A wholly owned subsidiary of***

***Conopco, Inc.,***

***A subsidiary of***

***Unilever N. V.***

**THE OFFER AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON MONDAY, MAY 15, 2000, UNLESS THE OFFER IS EXTENDED.**

*The Information Agent for the Offer is:*

**MORROW & CO.,** INC.

445 Park Avenue 5th Floor

New York, NY 10022

Call Collect (212) 754-8000

Banks and Brokerage Firms, please call: (800) 622-5200

Shareholders, please call: (800) 566-9061

*The Dealer Manager for the Offer is:*

**MORGAN STANLEY DEAN WITTER**

1585 Broadway New York, New York 10036 (212) 761-4750

1. One interesting digression that the instructor may want to make is to explore the merits of corporate charitable donations in general. One might arguably question why managers choose to donate investors’ money instead of “dividending” the money to investors and allowing them to donate to the causes of their choice. A relevant example is the Bill and Melinda Gates Foundation, which donates the founders’ wealth—rather than that of Microsoft shareholders—to causes of the founders’ choice. Some counterarguments for corporate charitable donations include tax advantages and profit-oriented goodwill with other stakeholders. The corporate manager needs to remember that corporate donations should be made with deference to the shareholders’ wishes. [↑](#footnote-ref-1)