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Goodwill Hunting: How Good Intentions Can Go Awry

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Food & Drink

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When Campbell's announced in 2012 that it was buying Bolthouse Farms for $1.55 billion, the company said it was part of a strategy to grow in dressings and beverages. After some missteps along the way, Campbell's just sold that operation for $500 million– about a billion dollars less than it paid. The buyer: an investor group including Bolthouse's former CEO.

What keeps you up at night? Consolidation is a big force in food and beverage these days as many firms expand, often growing rapidly through deals. One big worry for some CEOs, though, may be that a big deal will turn into a big drag on earnings. The Bolthouse deal resulted in a $1 billion hit to the profit and loss statement for Campbell's, which call ill afford further write downs. This write down is only one of many in food and beverage, as tastes and trends change, and goodwill can go with it.

Goodwill in accounting is created by the amount of money paid for an acquisition in excess of the fair value of the net assets acquired. Customers like your brand. And that has value, even if it's intangible. But goodwill requires annual re-evaluation from a GAAP (Generally Accepted Accounting Principles) standpoint. Privately owned companies have an option to amortize goodwill over ten years. If a company does not opt to amortize and instead keeps the value on its balance sheet, that's when goodwill can get better or go bad, as happened with Bolthouse and some other big food and beverage deals. Kraft Heinz, for instance, took a $15.4 billion write down on brands such as Kraft and Oscar Mayer.

Writing down goodwill hurts stock prices and financial statements. Companies have to be prudent about the value of what they're paying for and what they do with a brand once they own it. It can come back and hurt them in the future.

While writing down goodwill is not a good thing, it's not all bad. Goodwill for tax purposes can be written off over 15 years. Under adverse conditions, or if a brand declines in sales, which can occur when popularity or consumer preferences change, goodwill can take a big hit. And lately big changes in tastes have been widespread in food and beverage, making the industry particularly vulnerable to the goodwill bug. Consumer preferences for old, stodgy brands have changed dramatically. If companies don't respond, they not only lose sales volume, they can be hit by a goodwill impairment. Companies that go into brick and mortar and buy manufacturing plants, which they then may close if they're not operating efficiently, also are subject to impairment charges.

Other food and beverage giants have taken big goodwill hits lately. Kellogg created a reorganization plan for its North American operations, before selling its cookie and snack business to Italy-based Ferrero Group. Even before the sale, Kellogg took a $35 million hit on its profit and loss statement, related to that business.

Buying a brand can still be a great way to grow, but any acquisitions or sales have to be closely monitored for value, long-term prospects, and the impact they could have on financial statements. Food and beverage's story now is, in part, about deals and growth, but brand value can expand or diminish. Companies have to make deals work, and when they don't, the goodwill write downs can be waiting in the wings. And even if goodwill, in theory, is intangible, big changes in tastes and trends can be very real. Good luck, deal hunting.

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