Ben & Jerry's Homemade Ice Cream Inc.: Keeping the Mission(s) Alive

As Chuck Lacy composed his thoughts before the September 1990 Ben & Jerry's board meeting, he knew that the central decision of the day would set the tone of the company for years to come. And because he was to assume the presidency in January, Chuck felt a special need to put his imprint on that decision.

From the beginning, Ben & Jerry's was determined to be a company with a strong and unique set of values. It wanted to be a force for social change. It wanted to stand for something better than the typical corporation. A key policy exemplifying that intention was the 5-to-1 salary ratio, which dictated a maximum spread between the lowest and highest paid employees of five times—a dramatically narrower differential than the 90 to 1 norm in American business. (See **Exhibit 1** for a description of the policy.) The policy aimed to recognize the contribution of lower-level employees and to link top management rewards to company-wide compensation. It also made a philosophical statement that corporate America tended to overpay top management and underpay entry-level employees, and that corporations should strive to reduce discrepancies in wealth distribution. A source of great company pride, this policy had drawn more attention, internally and externally, than any other at Ben & Jerry's.

In recent years, however, the board and various company members had begun to question its fairness and effectiveness. Ben & Jerry's had grown much larger and more complicated. New positions that required a higher level of management skill and professionalism were being created, and the 5 to 1 rule was a major barrier to offering competitive compensation packages to prospective candidates. Mid-level employees saw limited incentive for promotion, as salary compression began to equalize middle- and upper-level compensation. Top management was paid substantially below market rates for their work.

Moreover, growth had brought people to the company who questioned the underlying assumptions of justice and equity behind the rule. To many, arbitrarily tying compensation levels to a specific ratio was not necessarily more fair than using market rates for the jobs performed.

Ben Cohen was unimpressed by these arguments. As a founder of the company and a driving spirit behind its development, he was completely committed to the philosophy behind the 5 to 1 policy. He was not willing to sacrifice the principle behind the policy for any reason. Many in the company and on the board agreed with Ben. They believed that the 5 to 1 rule symbolized values which were central to the company's identity and success, and that morale would be devastated by a

Senior Lecturer John Theroux prepared this case with the assistance of Research Associate Johanna M. Hurstak as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

change in the policy. Accordingly, they sought managers who supported the social mission and who were willing to make the financial sacrifices it entailed.

The debate about the policy had gone on for almost two years and was beginning to erode board morale. Chico Lager, the outgoing chief executive officer, strongly believed that the policy had to change. The board would soon decide the fate of the 5 to 1 rule.

Ben & Jerry's

In 1963, Ben Cohen and Jerry Greenfield became friends at their Long Island, New York high school. Fourteen years later, dissatisfied with their respective careers, they decided to start a food company together. Resolving to live in a rural area more consistent with their 1960s' counterculture perspective, they moved to Vermont. After an initial attempt at starting a bagel delivery service, they enrolled in a $5 correspondence course on ice cream making from Penn State. They incorporated their company on December 16, 1977, and opened the first Ben & Jerry's homemade ice cream shop in Burlington four months later with an investment of $12,000.

The shop was an immediate success. By 1980, relatively low wintertime demand at the shop drove the pair to package their ice cream in pints and to start selling them to small retail outlets in the area. In 1981, sales had increased enough to require expansion of manufacturing into a second building.

The company was able to sell as much ice cream as it could make; growth consistently averaged over 60% annually (see **Exhibit 2**), and came mainly from entering new geographic markets with pint-sized containers. By 1990 the company was selling its products in all major markets, and had a fairly high penetration of the relevant supermarkets and "mom and pop" stores that represented the bulk of ice cream sales (see **Exhibit 3**).

In 1988, Ben and Jerry were named U.S. Small Business Persons of the Year at a White House ceremony. The company had become a phenomenon.

The Ice Cream Industry

The total retail value of ice cream and all related products sold in the United States was roughly $9.3 billion in 1990, or almost 1.5 billion gallons. The frozen dessert market was large, slow-growing, and fragmented into a host of mainly local and regional companies. It was segmented into categories based on butterfat and air content according to the following proportions:

Table A Segment share of U.S. packaged frozen dessert market, 1990 (retail value)

	(%)	Total Sales ($ millions)
Packaged ice cream		$2,100
Superprempium[a]	9.5%	
Premium	38.1	
Regular	38.1	
Economy	14.3	
Ice milk		$ 500
Superpremium	0.4%	
Premium	54.4	
Regular	36.4	
Economy	8.7	
Frozen yogurt		$ 350
Superpremium	15.7%	
Premium	67.4	
Regular	16.4	
Economy	0.5	
Frozen novelties		$3,200

Source:International Ice Cream Association, June 1992

[a]Containing more than 14% butterfat and 20% or less air.

Virtually all superpremium ice cream was marketed in round containers by the pint. Other categories were typically sold in rectangular containers, primarily by the half gallon (see **Exhibit 4**). Distribution cost was an important factor, particularly in the lower-priced, bulkier segments.

Although the mix of products changed significantly over time (see **Exhibit 5**), per capita consumption of ice cream barely rose from roughly 15 quarts per year in 1970 to almost 17 quarts in 1990. Ninety-four percent of all households ate ice cream, and consumption was highest among families with young children and persons over 55 years old. This demographic fact indicated that per capita ice cream consumption could exceed in the 1990s the 19.5 quart per year peak hit during the early 1960s. (**Exhibit 6** indicates per capita consumption in the United States by region).

Ice cream consumption was not as seasonal as one might suspect: the three months of summer accounted for about 30 percent of the annual consumption of ice cream. Supermarket ice cream inventories turned 35 times per year, and the product generated five times more profits per square foot than the average product sold in the supermarket. Producing ice cream, from mix creation to packaging and freezing, required almost six hours. The highest quality products cost the most to produce. Ben & Jerry's products, for example, were known for having numerous and large chunks of added ingredients, a process that was much more difficult and costly to achieve than using smaller pieces. Consumers considered taste and creaminess the key qualities of an ice cream.

The superpremium ice cream market

Superpremium ice cream was distinguished from other ice creams by its higher fat content and its lower level of "overrun," the amount of air contained in the ice cream. As a result, superpremiums tended to taste richer and creamier than traditional ice creams. Competition in the superpremium category was focused on product quality, flavor differentiation, and marketing. Once a consumer had made the choice to "invest" in a superpremium ice cream at twice the price per ounce of premium ice creams and three or four times the price of regular ice creams, a five or ten cent per pint price differential was not a critical factor in the ultimate purchase decision.

It was only in the 1980s that several companies began to capitalize on market research that showed that ice cream consumers valued quality over price. Major packaged food companies such as Kraft (Frusen Gladje), and Pillsbury (Haagen-Dazs) flooded the market with new varieties of ice cream and other frozen novelties. Several small companies briefly flourished and then stumbled (Steve's Homemade Ice Cream) or perished (Shamitoff Foods). During the 1980s, product quality and price points trended upward as consumers came to view ice cream as an affordable luxury. This attitude allowed premium and superpremium ice cream volumes to grow at a 14% annual rate during the 1980s, about seven times as fast as the average consumer product.

As aging baby boomers began to see their waistlines expand, processors responded with "reduced guilt" products with lower fat and cholesterol, enabling light and fat-free ice cream categories to develop. At the same time, demand for superpremium ice creams continued to grow.[1] As ice cream manufacturers addressed smaller market niches in order to stimulate growth, the market fragmented into hundreds of flavors and a half dozen gradations of fat, from superpremium with 20 percent butterfat to fat-free frozen desserts with no sugar. During the 1980s, virtually all of the gains generated by the superpremium and premium categories came at the expense of the middle brands. This trend was projected to continue into the 1990s.

Following this initial period of rapid growth, the superpremium ice cream market experienced a "shake-out" in the late 1980s that, according to industry analysts, continued into 1990. Initially, some of the smaller players that had not established a strong retail foothold were eliminated. Since then, the shake-out was expedited by a shelf space crunch in the freezer cabinet as retailers made room for the increasingly popular frozen yogurts, ice milks, and nonfat ice creams. (**Exhibit 7** shows the leading superpremium producers in 1990.)

The superpremium ice cream market in 1990 separated into two relatively distinct sub-segments: producers oriented toward traditional flavors such as vanilla, chocolate, coffee, and chocolate chip; and "mix-in" flavors. Mix-in flavors generally consisted of a base ice cream of vanilla or chocolate to which chunks of candy bars, cookies, nuts and/or fruits were added. Mix-in costs ranged from zero for vanilla to as much as a third of cost of goods sold for some flavors. Selling prices, however, were the same for all flavors. Thus, a product mix skewed toward traditional flavors would produce significantly higher gross margins than those of a mix-in specialist. Haagen-Dazs and Frusen Gladje primarily targeted the traditional flavor sub-segment, while Ben & Jerry's and Steve's focused on the mix-in category. During the 1980s, Haagen-Dazs and Ben & Jerry's emerged as the dominant forces in their respective categories. (See **Exhibit 8** for Ben & Jerry's market share figures). Haagen-Dazs had attempted to introduce flavors more toward the mix-in side of the spectrum in order to abate the rapid market share growth of Ben & Jerry's. This effort was only modestly successful, as it appeared that the new flavors had cannibalized Haagen-Dazs' existing line while Ben & Jerry's continued to flourish.

Ice cream was a flavor loyal business. Consumers typically perused a variety of familiar ice cream brands and selected an appealing flavor or arrived at the store with a particular flavor in mind. Producers could alleviate the risk of losing a potential sale by having a broad selection of flavors in stock as often as possible. The "hit ratio" could be raised by having a higher percentage of the company's flavors on the shelves and/or by increasing the number of flavors the consumer would buy through constant flavor innovation.

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[1]The ice cream market reflected a 1980s trend—that consumers were interested in only the very best or the very best value.

By 1990, the competitive environment had become more intense and difficult. Penetration of the leading brands had been achieved in all significant markets. Market growth was projected to slow dramatically to rates of roughly four to five percent. These factors were creating strong pressure for competitors to fight each other for market share in order to achieve acceptable growth rates. At the same time, local competitors had sprung up—some mimicking Ben & Jerry's iconoclastic style. Potential competition from traditional ice cream makers became a greater threat as these producers became increasingly aware of the segment's attractions.

Future competition in the industry would require a more sophisticated approach to product innovation and product line management. Consumer tastes were changing, requiring products with lower cholesterol and calories than the traditional superpremium ice cream without sacrificing taste. Light ice milk, frozen yogurt, and frozen novelties were being introduced by the superpremium competitors in order to respond to these requirements. Indeed, at least eight competitors had introduced superpremium[2] frozen yogurt by late 1990, and sales in this segment was expected to double in 1991. These new products vied with existing products for shelf space. Broader product lines, more complicated manufacturing and distribution systems, and more sophisticated marketing and promotion programs would increasingly be required in the 1990s.

Distribution

Due to the importance of product quality, flavor selection, and shelf space in gaining share of the superpremium ice cream market, product distribution became a major focus for market participants. The distribution method of choice was "direct store delivery" whereby the ice cream was delivered directly to the store and placed on the shelf by a distributor representative. Haagen-Dazs created such a system at great cost and distributed roughly 50 percent of its products through company operated distributors versus outside distributors. Ben & Jerry's, alternatively, had two primary distributors, Dreyer's Grand Ice Cream, Inc. and Sut's Premium Ice Cream, as well as several other local distributors that serviced limited market areas. In 1990, sales to Dreyer's accounted for 43 percent of total company sales,[3] and sales to Sut's represented 10 percent. Dreyer's distributed Ben & Jerry's in all of the company's markets except New England, Florida, and Texas, and Sut's distributed Ben & Jerry's ice cream in parts of New England.

Both Frusen Gladje and Steve's were losing distribution at a rapid pace in 1990. Since 1989, Frusen Gladje's grocery store distribution dropped roughly 15 percent in Ben & Jerry's core markets and its market share fell about five share points. At the same time, Steve's share had declined two to three percentage points. Industry analysts believed that virtually all of the market share losses of Frusen Gladje and Steve's had been picked up by Ben & Jerry's, while Haagen-Dazs' share had increased only slightly. Combined, Frusen Gladje and Steve's had almost 10 percent of the market, but this was down from 25 percent roughly two years earlier and was still shrinking.

Ben & Jerry's Position

By 1990, Ben & Jerry's had established itself as a strong #2 in the superpremium ice cream market nationwide and was the fifth largest ice cream maker of any type. Ben & Jerry's products were sold in bulk to its own retail scoop shops and to the food service industry, but the vast majority

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[2]Superpremium loosely defined as being those products sold in pints and in the same price range as superpremium ice creams.

[3]Ben & Jerry's represented a significant component of Dreyer's business, accounting for roughly 12% of that company's sales in 1990. At the same time, Dreyer's had been instrumental in Ben & Jerry's success at penetrating markets, specifically in the West Coast where Dreyer's has a dominant market share.

of its sales were through grocery stores in pint containers. Since most outlets carried only one or two brands of superpremium ice cream, being #1 or #2 was crucial in the business.

Ben & Jerry's distributed its products through a variety of channels. The largest distributor, Dreyers Grand Ice Cream Inc., was also the producer and marketer of Edy's brand ice cream. Dreyers also produced approximately 25% of Ben & Jerry's ice cream in a plant in Indiana. This arrangement had been struck when Ben & Jerry's capacity had not increased rapidly enough to meet demand. Interested in penetrating new markets quickly, Ben & Jerry's management saw the Dreyers arrangement as a temporary stopgap. In order to maintain the made-in-Vermont character of Ben & Jerry's ice cream, Vermont dairy products were shipped to Indiana for processing in the Dryers' plant. The arrangement caused some controversy for the company, and the press had run several stories speculating about how the relationship between the two companies might evolve.

Ben & Jerry's ice cream came in a wide range of innovative flavors, including Cherry Garcia and Chunky Monkey. Except for the temporary arrangement with Dreyers, it was made in Vermont with only Vermont dairy products. The higher costs of using Vermont dairy products depressed margins but were thought to be outweighed by the image of quality and purity which the policy conveyed. The ice cream contained no artificial ingredients or preservatives, although some of the candy and cookies used in various flavors did. The company claimed to add 1½ to 2½ times more flavorings to its products than any other competitor. The rumor inside the company was that Ben had a sinus problem and thus had difficulty tasting any flavor until it was quite potent.

In 1988 the company began to make Peace Pops and Brownie Bars to supplement its product line and to gain shelf space. In 1989 it added Ben & Jerry's Light, with one-third less fat and 40% less cholesterol than its regular superpremiums. A frozen yogurt line was planned for 1991.

By 1990, two plants were operating at full capacity and a third was planned. Approximately 330 people worked at the company, with over 220 in the manufacturing operations at these facilities; fewer than 20 people were employed outside of Vermont. A strong commitment to quality and an emphasis on manufacturing skills pervaded the organization.

Although Ben was by far the largest shareholder, stock in the company was publicly traded (see **Exhibit 9**).

Continued growth at Ben & Jerry's

Until 1990, much of Ben & Jerry's rapid sales growth had been a function of the company's expansion into new geographic markets. In the future, industry analysts believed that the company would be increasingly dependent on further penetrating existing markets, given that it had developed a strong distribution network. Ben & Jerry's had identified 12 core markets, representing roughly two-thirds of total U.S. superpremium sales, and had achieved distribution in every major chain in those markets by late 1990.

Flavor differentiation also played an essential role in the growth of Ben & Jerry's product line. The company steadily added new flavors to the line and eliminated slower moving flavors in order to have a constantly improving flavor selection available. Ben & Jerry's aggressively introduced new flavors in 1990, including Chocolate Fudge Brownie, Rainforest Crunch, Wild Maine Blueberry, and Fresh Georgia Peach Light, which contributed to the company's 24 percent volume increase by late 1990. Ben & Jerry's product mix in 1990 was heavily weighted toward lower-margin products. Looking ahead, industry observers saw opportunity to promote some of the higher margin products and/or introduce new products that incorporated lower mix-in costs, such as Ben & Jerry's Frozen Yogurt being introduced in 1991. Clearly, these developments in the marketplace posed some new challenges for Ben & Jerry's management, including the need to develop innovative marketing strategies and programs, and fast-response management information systems.

The Social Mission

The growth and success of the firm had not been the original intention nor expectation of the two founders; they each had serious misgivings about the idea of building a substantial profit-making corporation. They both held strong antibusiness biases growing out of their 1960s' radical backgrounds. The fact that their scoop shop in rural Vermont had become a significant and well-known company was a somewhat uncomfortable surprise to them. In fact, Jerry left the company in 1982 to be with his companion in Arizona while she attended graduate school. Part of his reasoning (reversed by his return in 1985) was that, with 20 rather overworked employees, the company was becoming too impersonal for him. Although sharing these concerns, Ben was convinced by a friend that, with the right approach, a large and growing company could become a large and growing force for social change. With that expectation, Ben stayed on and became the dominant personality and driving spirit behind the development of the company's unique culture of social activism.

The company developed in a manner referred to internally as "caring capitalism" and which some observers have called zany, adventurous, and anti-establishment. These beliefs showed up in practices and policies throughout the company.

The company's approach to marketing and promotion reflected these attitudes. Ben had always taken a personal interest in this area. Traditional approaches to marketing were rejected. No market research, media spending, or test marketing was employed. Ben decided that the marketing and promotional approach of the company should be educational events focused on social issues. They should be fun as well. With this basic philosophy, a variety of creative and effective promotional activities were developed. The company's pint containers were used to promote campaigns for such issues as support for the family farm and to ban Bovine Growth Hormone. The company sponsored summer music festivals across the country. Its factory tour in the Waterbury plant became the second most popular tourist attraction in Vermont, with one half of the tour admissions going to local charities. Its annual meetings became highly publicized "events"—activities that lasted several days and included promotions for world peace, environmental, and other social causes. A converted bus with solar-powered systems carried a traveling vaudeville act around the country. The publicity surrounding these types of promotional activities was extensive. The company developed a distinctive image as a result.

Ingredient sourcing was pursued with a social purpose. For example, a Native American farming group supplied all the blueberries for the Wild Maine Blueberry flavor; a New York bakery run by homeless people supplied all the brownies for a flavor called Chocolate Fudge Brownie; and a flavor called Rainforest Crunch, using ingredients native to the Brazilian rainforest, was developed to encourage its preservation.

In 1985, the Ben & Jerry's Foundation was established to fund community projects. It was financed by a 7½% pre-tax profit contribution, the highest level of charitable contribution of any U.S. public company.

The company planned to open a plant and adjacent scoop shop in Karelia, Soviet Union to promote peace.

Ben organized 400 companies into a group called 1% for Peace, which worked towards efforts to encourage peace through understanding.

Environmental issues were taken seriously, and included investment in state of the art greenhouse technology for wastewater treatment at the plants and the appointment of an environmental affairs director.

Internally, the company attempted to be progressive and caring. Free employee assistance programs helped with any type of personal problem. On site daycare facilities were started.

Employee benefits were comprehensive. The company tried to create an atmosphere where employees could be "real." Dress was casual, even in the offices, and company meetings were celebratory bashes. The tone and style of the organization was friendly, informal, and direct, and the management philosophy was participatory. Hierarchy was viewed with suspicion and distaste. No organization chart existed, although jobs and responsibilities were generally understood. Jerry was head of the Joy Gang, whose purpose was to "spread joy" across the company.

The overwhelming majority of employees believed that the company did a good job as a socially conscious company contributing to its various communities. In the 1989 annual report, William Norris, founder and chairman emeritus of Control Data Corporation, signed the social audit, which the company conducted each year, with a statement that his "conclusion is that Ben & Jerry's has the most thoughtful, comprehensive social concerns program of which I am aware."

The firm's socially conscious approach was not part of a carefully crafted commercial strategy but resulted from the personal orientation and interests of the founders. Ben commented in the March/April 1988 issue of *New Age Journal:*

> Jerry and I never planned on going into business, so we don't have your normal business head. We didn't go to business school. I didn't graduate from college. Jerry was going to premed when we opened up this homemade ice cream parlor pretty much on a lark. We were looking to make a livable wage, but we were not looking to get rich, and I think that's what's really different about us and our motivation to go into business. . . . It's really interesting what you can do with business when you don't care about making a lot of money.

As the company grew, gained recognition, and succeeded financially, the need to be more explicit about the role of social activism in the company increased. A series of discussions to develop a mission statement resulted (see **Exhibit 10**). Arriving at the three elements of the mission—product, economic, and social, was fairly easy. Deciding the relative importance of each proved much more difficult. Some people advocated a focus on the economic mission of profit, shareholder value, and employee rewards. This, they argued, was the heart and foundation of any company. Others, led by Ben, argued for an emphasis on the social mission. This, they argued, was the spirit that drove the firm and the main reason for their support for it. Eventually, the board agreed to assign equal importance to each element of the mission and to highlight their interdependence. This theme was reinforced by Ben in a statement in the 1989 annual report:

> It's our objective to run Ben & Jerry's for long-term financial and social gain. We are becoming more comfortable and adept at functioning with a two-part bottom line, where our company's success is measured by both our financial and our social performance.
>
> We are convinced that the two are intertwined. And, we are convinced that attention to excellence, quality, and the social needs of our communities will lead to solid, stable growth of both our bottom lines.

Observers of the company who agreed with Ben's statement pointed to a number of factors. The unusual strength of the social mission caused a promotional boost, as interested reporters covered the company extensively. Many employees were motivated at least partly by it, and morale was high (see **Exhibit 11**). A Roper poll indicated that 52% of the population would pay 10% more for a brand made by a socially responsible company. The idea that doing well and doing good are consistent had gradually gained converts as the company continued to progress in both dimensions.

The orientation to the social mission had some questionable repercussions at the firm, however. Much less attention to cost and profit was demonstrated than in most businesses. For example, the company's three-year business plan contained no numbers and only 3 of 70 points in the plan referred to economic characteristics of the firm. Some traditional business methods that might have strengthened the company were either rejected in the zeal for an anti-establishment ethic or not discovered in the first place. The self-conscious rejection of hierarchy at the company made decision making and communication laborious and complicated. Everyone felt comfortable gong to see Chico with problems or suggestions. This put an enormous burden on Chico, who was not necessarily the right person to deal with the issue in the first place.

As the number of people in the company grew, not everyone necessarily subscribed to the company philosophy. Practical pay and promotion issues predominated with many of them. As the potential for chaos increased with size and complexity, a smoothly functioning, well-organized system became more important. The company didn't rate as well on these issues as on others (see **Exhibit 12**).

Ben, Chico, and Chuck

Proud of being a Vermont company, the management team and work force was made up of people who lived in or were willing to move to a rural environment. The management group was young, with most of its members in their twenties and thirties. (**Exhibit 13** describes the backgrounds of the management team.)

Ben was the clear leader of the company, approved products, directed marketing and promotion, and was the driving force behind the social mission. A 40-year-old, bearded man who was forced to borrow a waiter's uniform for his 1988 White House award because he had no suits of his own, Ben personified the spirit of the company. Ben was not, however, interested in managing the details involved in building the organization. He was unequivocal about the values that he believed the company should represent, but the process of managing the company was unappealing to him.

As a result, in 1982 he brought Fred "Chico" Lager into the company as general manager. Armed with an MBA, a professional approach to his job, and a basic appreciation of the social mission of the company, Chico became the defacto head of the "economic mission" and the builder of the organization. As time went on, Ben's presence diminished. He even hired a marketing director in 1986—the job for which he had always taken personal responsibility. Chico was running the company.

As Ben observed the development of the company, he became increasingly concerned that the social mission was being lost. He expressed his concerns repeatedly. Ben's pressure did result in the mission statement and a more sophisticated understanding of the value of the company, but it contributed to wearing Chico out. He was leaving for a six-month trip around the world in January, when Chuck Lacy would take over.

The 5 to 1 Debate

The discussions about the 5 to 1 compensation rule had become a symbol of the philosophical tension between the more "businesslike" faction headed by Chico and the "socially minded" faction headed by Ben. Feelings about the issue represented by the 5-to-1 rule were strong on both sides. As one director stated:

> The dissolution of the company is at stake. It is a battle for the heart and soul of the company.

Ben's side of the argument was clear and unequivocal. Whatever the apparent effects on the functioning of the company as a profit-making enterprize, the policy was simply morally correct. If it was impossible to do the right thing and to be involved in a commercially successful venture, then

Ben and his compatriots would quit. Moreover, they believed that in fact the policy was part of the animating spirit at the company and that it was a key source of pride, cohesion, loyalty, and motivation which were central to the long-term success of the company.

On the other hand, many others thought that this perspective was naive and dangerous. With a tougher market and competitive environment looming, and with a larger and more complicated company to manage, hiring and retaining the best possible managers would be crucial for the company's future. The 5 to 1 policy resulted in above market compensation for the lower pay levels and a substantial penalty at the top levels (see **Exhibit 14**). Pay constraints had already caused problems in attempts to hire some competent professionals into key spots. Morale of existing managers was also affected by the rule. Wall Street analysts had been making comments about high management turnover.

Chico Lager described his own attitude towards the policy:

> My problem with the ratio was that it didn't allow me, as the CEO of the organization, to recruit and put in place the management staff I needed to run the company. Trying to recruit senior-level positions became a nightmare. Most job searches lasted over a year. By offering compensation packages which were sometimes 25-50% below market rates, we limited the pool of applicants we considered. It was, in my opinion, one of the reasons why we often hired senior managers who didn't work out. Keep in mind that not only were we asking people to take large pay cuts from their existing salary to join the company, but we were also telling them that even if they did great work, their future compensation would be limited to minimum raises that were going to be based on whether or not we could afford to increase the pay scale for the entire company.
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> The vacancies in senior management created a tremendous stress on the organization. We came very close to a financial meltdown during the period of time we were recruiting a CFO. Our existing finance staff was overwhelmed by the growth of the company. Our ability to manage the company intelligently, based on budgets, forecasts, what-if scenarios, etc. was nonexistent.
>
> I also had feelings regarding the 5 to 1 from a personal standpoint, although these were definitely secondary to my concerns for the company. Still, in 1990, I was making the same amount of money (approximately $81,000) that I had made in 1988. During that time the company had grown from $47 million to $77 million. Every other employee had received annual salary adjustments during that time. My salary was tied to the employee who was about to be hired. Unless I increased the starting wage for full-time scoopers in our company-owned ice cream shops, I couldn't give myself a raise. Any increase to the entry-level wage for scoopers would have repercussions throughout the company's salary structure, and major bottom line impact. I was happier to make $5,000 less and have the company make $200,000 more. It wasn't worth the added stress that the added expenses would bring to my job.

For Chuck Lacy, the debate had special significance. He had been recruited to Ben & Jerry's in 1988. A tall, 33-year-old with a trademark Ben & Jerry's beard, Chuck had observed the disagreement between Ben and Chico. He had grown concerned about Ben's disenchantment with the direction of the company. He believed that Ben's creativity and visionary leadership was a huge asset for the company. He also supported the principles behind the social mission.

He recognized the need for discipline, order, professionalism, and profit orientation. Everyone at Ben & Jerry's knew that the company was changing. The family spirit of the company was tested by the arrival of more and more newcomers. Controls, departments, memos, and procedures had inevitably made the company seem more traditional, corporate, and businesslike. This was a fact that everyone, including Ben, had to accept.

Chuck knew that he would bear a big share of the burden of seeing Ben & Jerry's grow from adolescence to adulthood. A few key decisions early in his tenure would set the tone for the future. The 5 to 1 ratio was probably the most important one.

Exhibit 1

TO: All Employees

FROM: Chico

RE: The 5 to 1 Salary Ratio

Employee compensation at Ben & Jerry's is based on several components. These include profit sharing, a stock purchase plan, and a benefit package. In addition, the company has a corporate salary policy that we believe is unique: a compressed salary structure in the ratio of 5 to 1. Basically, this policy means that the highest paid employee of Ben & Jerry's (this includes corporate officers) will be paid at the rate no more than five times what the lowest paid employee could earn for an equivalent work week. The policy is implemented as follows:

1. The policy applies only to all full-time employees who have completed their probationary period. A full-time employee is defined in the employee handbook as ". . . one assigned to an established position with a regular work week of at least (30) hours."

2. After six months of employment, all full-time employees receive the same basic benefit package, regardless of their salary or wage level. Some special benefits, such as stock options or stock grants, may be based upon salary. For example, stock options may be granted in proportion to an employee's annual wage.

3. The maximum annual salary payable under the 5 to 1 ratio is five times the lowest straight-time hourly rate paid any full-time, permanent, nonprobationary employee, multiplied by 48 (hours) and 52 (weeks). For example, if the lowest straight-time hourly rate were $6.50 per hour, the maximum annual salary payable under this policy would be $81,120 ($6.50 x 48 x 52 x 5). The ratio is based on a 48-hour week to take into consideration that high-level salaried employees customarily work more than 40 hours per week.

4. The compensation of corporate officers may be a combination of salary and performance bonus. Combined, these two forms of cash compensation must be within the limitations of the 5 to 1 ratio as calculated above.

5. Employee salaries are determined by the company and its Board of Directors. Other than prescribing the maximum salary that *may* be paid to an employee, the 5 to 1 ratio has no effect on the amount of individual employee salaries.

6. The Board of Directors reserves the right to modify the compressed salary ratio.

7. The Board of Directors may at any time change or eliminate the 5 to 1 salary ratio.

The Board of Directors of Ben & Jerry's implemented the 5 to 1 salary ratio because of a belief that:

1. Everyone who works at Ben & Jerry's is a major contributor to the success of the company;

2. Corporate America overpays top management and underpays entry-level employees;

3. Corporations should attempt to reduce wealth distribution discrepancies; and

4. This Board of Directors of Ben & Jerry's recognizes that their compensation is linked to others in the company and that they benefit as others benefit.

Policy Goal

The corporate goal is to maintain excellent compensation packages for entry-level employees and thereby enable top management to achieve market rates.

Exhibit 2 Ben & Jerry's—Financial Highlights ($000)

	1990 Forecast	1989	1988	1987	1986	1985	1984	1983	1982	1981
Net sales	$75,000	$58,464	$47,561	$31,838	$19,954	$ 9,858	$4,115	$1,815	$966	$615
Cost of sales		41,660	33,935	22,673	14,144	7,321	2,949	1,239	586	309
Gross profit		$16,804	$13,626	$9,165	$5,810	$2,537	$1,166	$576	$382	$306
Selling, general, & administrative		13,009	10,655	6,774	4,101	1,812	822	479	366	273
Operating income		$3,795	$2,971	$2,391	$1,709	$725	$344	$97	$16	$33
Other income		(362)	(274)	305	208	(31)	(13)	(26)	(11)	(4)
Income before tax		3,433	2,697	2,696	1,917	694	331	71	5	29
Income taxes		1,380	1,079	1,251	901	143	118	14	0	0
Net income	$2,400	$2,053	$1,618	$1,445	$1,016	$551	$213	$57	$5	$29
Balance Sheet Data										
Working capital		5,829	5,614	3,902	3,678	4,955	676	57	43	24
Total assets		28,139	26,307	20,160	12,805	11,076	3,894	509	295	193
Long-term debt		9,328	9,670	9,330	2,442	2,582	2,102	157	80	69
Stockholders' equity		13,405	11,245	9,231	7,758	6,683	1,068	154	21	77

Exhibit 3 Market Shares and Penetration in Major Markets, Autumn 1990

Market	Ben & Jerry's Share (Penetration)		Haagen-Daz Share (Penetration)	
Baltimore/ Washington	34%	(84%)	48%	(79%)
Boston	53	(100)	39	(99)
Chicago	28	(88)	64	(93)
Denver	34	(88)	47	(98)
Houston	41	(74)	57	(64)
Los Angeles	20	(84)	70	(89)
Miami	26	(95)	68	(96)
New York	28	(93)	55	(100)
Philadelphia	31	(80)	52	(89)
San Francisco	38	(99)	60	(100)

Exhibit 4 Percent of Volume of Packaged Ice Cream

Package Size	Economy	Regular	Super Premium	premium	Total
Cup	1%	3%	1%	*%	1.8%
Pint	*	3	7	30	4.4
Quart	*	1	4	13	2.0
Half gallon	75	63	58	24	62.7
Gallon	5	7	1	2	4.6
Bulk	20	23	30	33	24.9
	100%	100%	100%	100%	100%

Source:International Ice Cream Association, 1990

*Less than 1%; Note: Totals may not add due to rounding

Exhibit 5 Segment Share Trends in the U.S. Frozen Dessert Market

	1985	1990	1995E
Economy	13%	13%	12%
Regular	46	34	24
Premium	26	34	39
Superpremium	6	8	10
Ice Milk	6	5	5
Frozen Yogurt	3	6	10

Sources:International Ice Cream Association, National Ice Cream Retailers Assocation, and Wessels, Arnold & Henderson

Exhibit 6 Per Capita Ice Cream Production by Regions,a 1989

	New England	Mid Atlantic	E.N. Central	W.N. Central	South Atlantic	South Central	Mountain	Pacific	United States
1987	23.42	16.96	15.31	23.44	11.69	12.51	12.01	15.44	15.26
1988	22.11	16.14	14.08	21.30	11.02	11.67	12.31	14.77	14.35
1989	19.44	14.67	12.15	21.18	10.89	11.03	9.72	13.841	3.39

Source:International Ice Cream Association, 1990.

[a]Per capita production is often used as a proxy for per capita consumption.

Exhibit 7 Market Shares in Major U.S. Markets, Superpremium Ice Cream, 1990

Company	National	Boston	New York	Florida	Midwest	San Francisco	Los Angeles
Haagen-Dazs	49%	39%	55%	70%	70%	60%	70%
Ben & Jerry's	27	53	28	25	25	38	20
Frusen Gladje	8	3	4	3	4	1	2
Steve's	2	2	8	0	0	0	0
All others[a]	14	3	5	2	1	1	8

Source:A.C. Nielson; Wessels, Arnold & Henderson

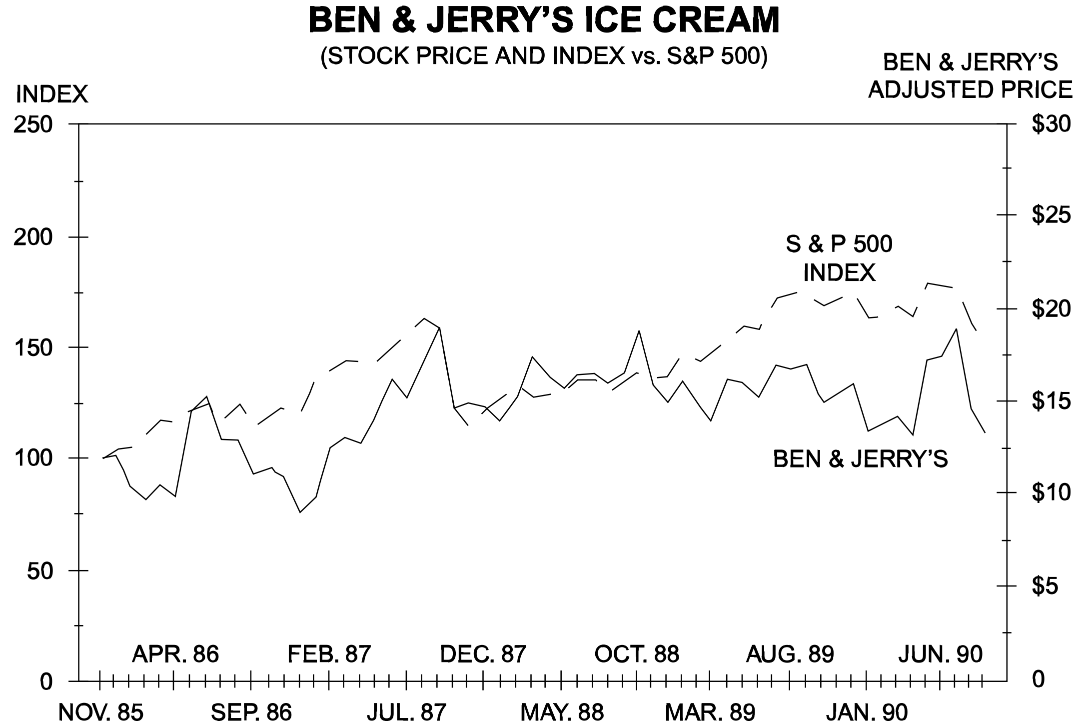
[a]Includes a half dozen very small regional companies such as Double Rainbow in San Francisco.

Exhibit 8 Ben & Jerry's Share of the U.S. Frozen Dessert Market (wholesale, $ millions)

	1990 Market Size	1990 B&J Market Share	1990 B&J Sales	1994 Est. Market Size
Superpremium ice cream	$200	27%	$54	$241
Superpremium ice milk	10	60	6	0
Superpremium frozen yogurt	55	0	0	100
Novelties	1,000	NM	6	1,000
Bulk (foodservice)	NA	NA	9	NA
Retail	NA	NA	3	NA
Total			$78	

Source:William Blair & Company, April 1991

Exhibit 9 Ben & Jerry's Stock Price and Stock Ownership



Source: Interactive Data Corp.

Ben & Jerry's Stock Ownership, as of May 1990

	Ownership of Class A Stock		Ownership of Class B Stock		Ownership of Preferred Stock	
Owner	**No. of Shares**	**% Shares[a] Outstanding**	**No. of Shares**	**% Shares[a] Outstanding**	**No. of Shares**	**% Shares Outstanding**
Ben Cohen[b]	441,987	21.8	243,938	42.6	-	-
Mr. & Mrs. Fred Lager	41,600	2.1	26,800	4.7	-	-
Jeffrey Furman[c,d]	22,200	1.1	15,150	2.6	-	-
Merritt C. Chandler	36	*	15,150	2.6	-	-
All executive officers & directors as a group (7 persons)	506,062	24.9	285,906	49.9	-	-
Jerry Greenfield[c]	72,500	3.6	45,000	7.9	-	-
Elizabeth Bankowski	-	-	-	-	-	-
The Ben & Jerry's Foundation, Inc.	-	-	-	-	900	100

*Less than 1%

(a) As of 5/11/90. Each share of Class A Common Stock entitles holder to one vote; each share of Class B Common Stock entitles holder to 10 votes.

(b) Under the regulations of the Securities & Exchange Commission, Mr. Cohen may be deemed to be a parent of the Company.

(c) As two of the three current directors of the Foundation, which has the power to vote or dispose of the Preferred Stock, both Mr. Greenfield and Mr Furman may be deemed, under the regulations of the Securities & Exchange Commission, to own beneficially the Preferred Stock.

(d) Does not include 210 shares of Class A Common Stock and 105 shares of Class B Common Stock owned by Mr. Furman's wife.

(e) While the Foundation is an entity legally separate from the Company, it may be deemed to be an affiliate of the Company under the securities laws.

Exhibit 10 Ben & Jerry's Statement of Mission

Ben & Jerry's is dedicated to the creation and demonstration of a new corporate concept of linked prosperity. Our mission consists of three interrelated parts:

Product Mission:

To make, distribute and sell the finest quality all-natural ice cream and related products in a wide variety of innovative flavors made from Vermont dairy products.

Social Mission:

To operate the company in a way that actively recognizes the central role that business plays in the structure of society by innovative ways to improve the quality of life of a broad community: local, national, and international.

Economic Mission:

To operate the company on a sound financial basis of profitable growth, increasing value for our shareholders and creating career opportunities and financial rewards for our employees

Underlying the mission of Ben & Jerry's is the determination to seek new and creative ways of addressing all three parts, while holding a deep respect for individuals, inside and outside the company, and for the communities of which they are a part.

Exhibit 11 Ben & Jerry's Employee Attitude Survey—1990

	% Satisfied		
	Low	Middle	High
Pay	26%	11%	63%
Benefits	16	3	81
Job security	15	9	76
Co-workers	3	4	93
Chances for accomplishment	15	8	76
Chances for development	24	8	69
Chances for advancement	31	12	57
Overall job satisfaction	5	5	90

Exhibit 12 Ben & Jerry's Employee Attitude Survey—Values versus Practices

Two-thirds of Ben & Jerry people say that the company "really practices what it preaches." The great majority understand and support the company's social mission. Sixty-one percent say it is "in tune" with their own values (12% say too conservative and 27% say too radical). See the chart below:

To What Extent Does B&J's:	To Some Extent	A Great Extent
Produce the highest quality products?	5%	95%
Give customers high-quality service?	6	93
Set a positive example for other business?	7	92
Effectively meet its social responsibilities?	10	89
Make work as joyful and pleasant as possible?	27	67
Treat people with dignity and respect?	31	63
Recognize and reward good performance?	39	49
Respect people's home and family responsibilities?	42	42

Exhibit 13 Company Officers

Ben Cohen, a founder of the company, was president and chief executive officer from January 1983 until February 1989. Currently, Mr. Cohen spends the principal portion of his time on marketing and promotion. Mr. Cohen first became involved with ice cream in 1968, as an independent mobile ice cream retailer with Pied Piper Distributors, Inc., Hempstead, New York, during three summers. He was promoted within the Pied Piper organization, and his responsibilities were broadened to include warehousing, inventory control, and driver training. He spent three years, from 1974 to 1977, as a crafts teacher at Highland Community, Paradox, New York, a residential school for disturbed adolescents, before moving to Vermont to form the company with Jerry Greenfield. Mr. Cohen has been a director of the company since 1977. Mr. Cohen is a director of Community Products, Inc., manufacturer of Rainforest Crunch candy, a member of the Council of Economic Advisors to the Governor of Vermont, a director of Oxfam America, and a trustee of Hampshire College.

Fred ("Chico") Lager joined the company as treasurer and general manager in November 1982 and has served as a director since 1982. In February 1989, he was named president and chief executive officer of the company. Mr. Lager shares responsibility for day-to-day operations of the company with Chuck Lacy and is responsible for long-term strategic planning. From 1977 until 1982, Mr. Lager was the owner/operator of Hunt's, a Burlington, Vermont nightclub and restaurant. After five years of successful operation, Mr. Lager sold Hunt's and joined the company.

Charles Lacy joined the company in 1988 as director of special projects and became general manager in February 1989, succeeding Mr. Lager when he was named president. Mr. Lacy shares with Mr. Lager responsibility for the day-to-day operation of the company. From 1984 until joining Ben & Jerry's, Mr. Lacy was a finance and business development executive with United Health Services, a chain of nonprofit hospitals and clinics in upstate New York.

Jeffrey Furman has been an officer, legal consultant, and director of the company since 1982. His office is in Ithaca, New York. Mr. Furman has been a member of the New York Bar since 1969. From 1976 until 1984 he worked for Raven Management Associates as a senior consultant to small business throughout New York State. Since March 1984, Mr. Furman has devoted all of his professional time to the company. Effective January 1, 1988, Mr. Furman became a full-time employee of the company. Effective March 31, 1990, Mr. Furman has resigned as vice president of the company and continues as a consultant and director. Mr. Furman is a director of Community Products, Inc., manufacturer of Rainforest Crunch candy.

Merritt C. Chandler became a director of the company in 1987. He has been business manager of the Addison, Vermont Central Supervisory Union, a group of school districts, since 1985. Until 1982, Mr. Chandler was an executive of Xerox Corporation. From 1982 until 1985 he was an independent business consultant. Mr. Chandler acted as project manager in connection with the construction of the company's Waterbury, Vermont, plant.

Henry Morgan became a director of the company in 1988. He is Dean Emeritus of the Boston University School of Management, having served as Dean from 1979 to 1986. He is a director of Cambridge Bancorporation, MedCem Products, Inc., and Symbolics, Inc.

Other Key Personnel

Jerry Greenfield, age 38, a founder of the company, was president from 1977 until January 1983. After graduating from Oberlin College in 1973 with a B.A. in Biology, Mr. Greenfield engaged in biochemical research at the Public Health Research Institute in New York City and then at the University of North Carolina, Chapel Hill. Mr. Greenfield moved to Vermont to establish the company with Mr. Cohen in 1977. Effective in January 1983, Mr. Greenfield elected to withdraw from the daily operations of the company and moved to Arizona. Mr. Greenfield moved back to Vermont in 1985 and through 1986 was a consultant to the company, participating in promotional activities, special projects, and certain major policy decisions. Effective January 1, 1987, Mr. Greenfield became a full-time employee of the company and serves as director of promotions.

James Miller, age 38, joined the company as production manager in September 1985, became plant manager in May 1986, and was named director of manufacturing in February 1989. From 1976 to 1981, he was a production supervisor and assistant plant manager for Land O'Lakes Incorporated, in Mora, Wisconsin (a manufacturer of dairy products). From 1982 to 1983, Mr. Miller was a shift supervisor at Schepps dairy in Terrell, Texas. From March 1983 until he joined the company, Mr. Miller was an assistant plant superintendent and plant superintendent for the Specialty Foods Division of Southland Corporation in McKinney, Texas.

Richard Brown, age 33, joined the company as director of sales in January 1986. From 1981 to 1984, Mr. Brown was a food service sales manager and western regional sales manager for Chipwich, Inc., Ft. Lee, New Jersey (an ice cream novelty manufacturer). From May 1984 until he joined the company, Mr. Brown was national sales manager for Schamitoff Foods (a frozen novelty manufacturer).

France Rathke, age 29, joined the company in April 1989 as its controller and was promoted to chief financial officer in April 1990. From September 1982 to March 1989, Ms. Rathke was a manager at Coopers & Lybrand, independent public accountants, in Boston, Massachusetts. Ms. Rathke is a certified public accountant.

David Barash, age 34, joined the company as director of community relations in August 1985 and became director of human resources in April 1988. From 1979 to 1985, he developed and directed public programs for Shelburne Farms, Inc., an agricultural organization in the Burlington, Vermont area, and operated his own consulting business.

Steven Ramlal, age 42, joined the company as director of quality assurance in April 1989. From June 1981 to April 1989 he was corporate quality assurance manager for Schwan's Sales Enterprises, a manufacturer of ice cream and other frozen dairy and entree foods. He held progressively more responsible microbiology positions with Schwan's from April 1978 to June 1981. Prior to this, he was a senior bacteriologist with Kraft and a chemist with Coca-Cola USA.

Exhibit 14 Ben & Jerry's Compensation versus Market Rates