7. Case Study: Kraft-Heinz Merger - When Cost Synergies Fail to Deliver Value

Deal Structure And Strategic Rationale

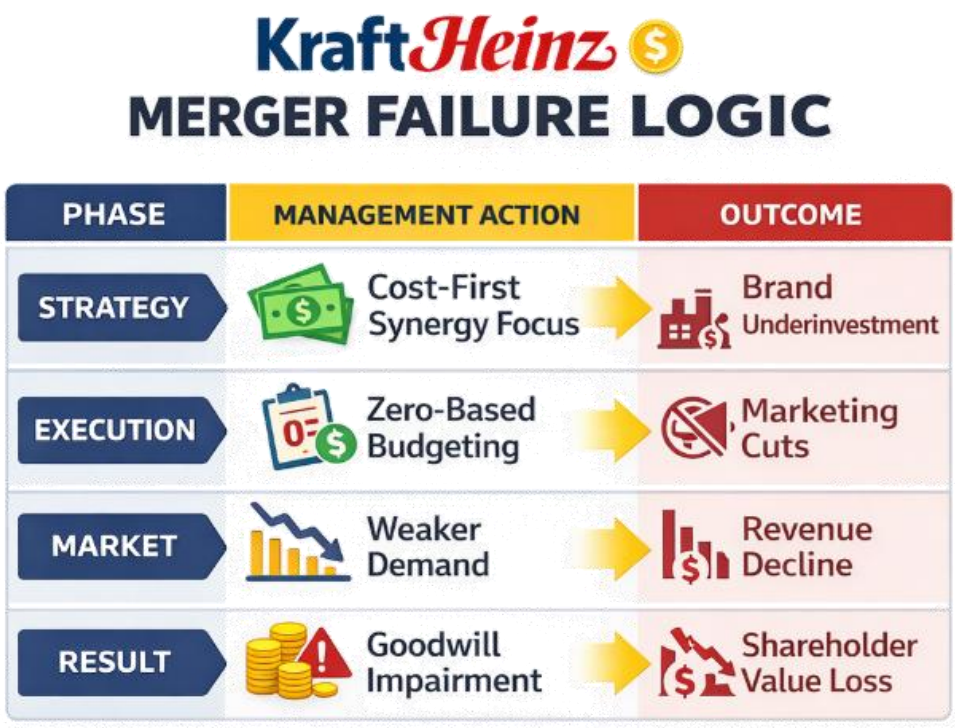
- In 2015, Kraft Foods and H.J. Heinz merged creating The Kraft Heinz Company.
- The $46 billion transaction combined 2 iconic global food brands.
- 3G Capital and Berkshire Hathaway structured and sponsored the merger.
- Kraft shareholders received 49% ownership in the combined entity.
- Heinz shareholders controlled the remaining 51% post-merger.
- The strategic thesis focused on 3 clearly defined synergies.
- Heinz generated 60% of sales from international markets globally.
- Kraft generated most revenue domestically with limited international reach.
- The merger aimed to distribute Kraft brands through Heinz's global network.
- 3G Capital projected $1.5 billion in annual cost synergies.
- Duplicate headquarters procurement and manufacturing functions would be eliminated.
- The combined company became the 5th largest global food producer.

Integration Execution And Cost Cutting

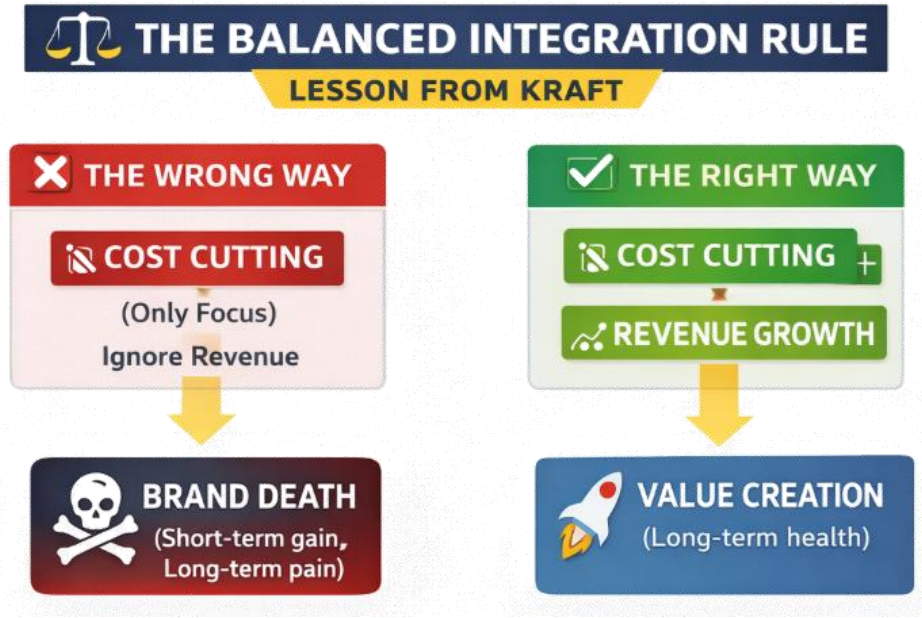
- 3G Capital implemented zero-based budgeting immediately after deal closing.
- Management eliminated thousands of positions across both legacy organizations.
- Manufacturing plants were closed and production facilities were consolidated.
- Marketing budgets declined as management prioritized aggressive cost reductions.
- The integration team achieved $1.5 billion synergies within 3 years.

Why The Merger Failed

- Cost cutting destroyed brand equity underlying Kraft product appeal.
- Reduced marketing spend weakened brand awareness and customer loyalty.
- Product quality declined after switching to cheaper ingredients.
- Retailers reduced shelf space as consumer demand weakened.
- Revenue declined 8% between 2017 and 2019 despite cost synergies.
- In 2019, Kraft Heinz recorded a $15.4 billion impairment.
- The write-down acknowledged significant brand value erosion.
- The stock price fell 60% from merger peak to 2019 low.



7. Case Study: Kraft-Heinz Merger [Part 2]



Lessons From Kraft-Heinz Failure

- This merger shows cost synergies alone fail when revenue declines.
- The integration focused solely on expense reduction without protecting revenue drivers.
- Cutting marketing saved money but destroyed brand equity long-term.
- Consumer packaged goods companies require continuous brand investment to maintain pricing power.
- Consumers switched brands when Kraft Heinz stopped investing.
- The merger also highlights governance risks under financial buyer control.
- 3G Capital's private equity playbook succeeded previously at Anheuser-Busch InBev.
- Applying the same approach ignored fundamental differences in food business models.
- Beer brands sustain loyalty with limited marketing, unlike consumer food brands.
- Cultural integration failed as 3G imposed discipline without preserving core value.
- Talented marketers and product managers exited after losing budgets and authority.
- This loss of institutional knowledge accelerated long-term brand deterioration.
- This outcome contrasts with mergers balancing cost and revenue synergies.
- When Disney acquired Pixar, Disney preserved Pixar's creative culture intentionally.
- Disney captured back-office synergies while protecting revenue-generating creative processes.
- Kraft Heinz proves integration philosophy matters more than legal structure.
- The legal merger structure functioned correctly without structural failure.
- Integration execution destroyed value by prioritizing short-term savings over brand health.