Andrew West

Tyson Foods Analysis

2 April 2008

Tyson Foods is a very well-known company in the Meat Products industry of the Consumer Goods market. Their products include chicken, beef, pork, prepared foods, and related products. The chicken, beef, and pork segments all include the breeding and raising of the animals to be processed for distribution mainly as meat cuts. The prepared foods segment is limited to frozen and refrigerated products, such as pizza crusts, sauces, and processed meats. Additional markets that Tyson is involved with include co-operations with ConocoPhillips, Kemin Industries, and Syntroleum Corporation in the development and production of renewable diesel fuel, flavor enhancers in the pet food market, and renewable synthetic military fuels, respectively.

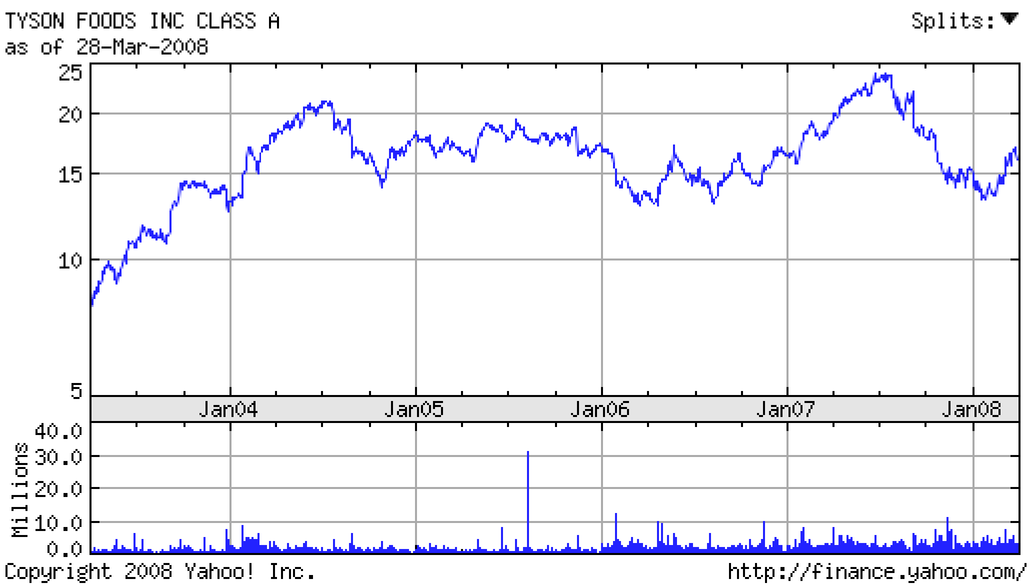
Although Tyson products generally end up in the average citizen’s household, the everyday shopper is not their main customer. Rather, Tyson’s customers are actual companies that are in the business of selling these products to consumers. This includes locations such as grocery retailers, grocery wholesalers, clubs and warehouses, and meat distributors.

However, for the purposes of marketing concepts, the customers of these businesses are who Tyson advertises towards.

The top competitors to Tyson Foods include, but are not limited to: Hormel Foods, Smithfield Foods, and Pilgrims Pride. Hormel products are fresh meat, sausage, ham, wieners, and bacon. Although they are often not the exact same as Tyson's products, they may still be considered as close substitutes for Tyson's chicken, beef, and pork products. Smithfield products include ham, bacon, sausage, and various luncheon meats. Pilgrims Pride produces mainly frozen, refrigerated, and fresh chicken and turkey products. These are substitutes for Tyson's chicken products.

It seems that Tyson's core competency is producing frozen and refrigerated chicken, beef, and pork. The distinctive competency of this would be that the chicken, hogs, and cattle used to produce these products are all owned by Tyson. This may be an appealing attribute that customers find important and would help differentiate Tyson from other meat production companies who may not have as reliable of a source of meat. However, as the cattle, chicken, and hogs are not actually cared for by Tyson, but rather independent organizations, it may be argued that the actual quality is not superior to that of competitors.

Tyson’s financial position has been unstable but seems to be improving. Although there was a drop in prices at the end of 2007, it looks as though the prices are beginning an upward trend, with each peak being higher than the previous and each valley maintaining a low of just under $15, not falling drastically. This can be seen on the following five-year chart.



The income statement (page 5) has also been unstable. After a loss in 2006, the 2007 net income returned to a positive gain, although still nearly $100 million less than the reported 2005 data. Furthermore, the recent increase in the cost of production that Tyson has experienced seems to be adding to the problem. Tyson had predicted an increase in the cost of cattle, chicken, and hog feed of $300 million; the expected increase is now $500 million- a significant increase. In order to obtain more accurate predictions, Tyson should begin doing research and development. A recommended starting point for research and development would be 5% of Tyson's Cash and Cash Equivalents.

One issue that should be clarified is Tyson's total operating expenses, as this was not entered into the data. In addition, the amount of Goodwill on the Balance Sheet seems disproportionate to the rest of the data. Goodwill is nearly as much as Property, Plant, and Equipment. This would be a red flag and should be clarified in order to increase confidence in Tyson Foods. For example, people who may be interested in buying stock in Tyson Foods may decide otherwise upon review of their Balance Sheet because the numbers do not seem representative of the actual business. Add to this the aforementioned lack of research and development, one would wonder how effectively they will be able to increase the stockholder's wealth if there is no new development in the business. Competitors who do research and development would have an advantage and may draw these potential stockholders away from Tyson. The most obvious solution to prevent this from occurring would be to keep accurate financial statements that the public can review with confidence. The Income Statement and Balance Sheet that is currently provided for public perusal can be reviewed on the following pages and is easily obtained from Yahoo! Finance.

Income Statement

PERIOD ENDING	29-Sep-07	30-Sep-06	1-Oct-05
Total Revenue	**26,900,000**	**25,559,000**	**26,014,000**
Cost of Revenue	25,467,000	24,631,000	24,274,000
Gross Profit	**1,433,000**	**928,000**	**1,740,000**
Operating Expenses			
Research Development	-	-	-
Selling General and Administrative	817,000	1,005,000	928,000
Non Recurring	2,000	-	47,000
Others	-	-	-
Total Operating Expenses	-	-	-
Operating Income or Loss	**614,000**	**(77,000)**	**765,000**
Income from Continuing Operations			
Total Other Income/Expenses Net	28,000	52,000	(10,000)
Earnings Before Interest And Taxes	642,000	(25,000)	755,000
Interest Expense	232,000	268,000	227,000
Income Before Tax	410,000	(293,000)	528,000
Income Tax Expense	142,000	(102,000)	175,000
Minority Interest	-	-	-
Net Income From Continuing Ops	268,000	(191,000)	353,000
Non-recurring Events			
Discontinued Operations	-	-	-
Extraordinary Items	-	-	-
Effect Of Accounting Changes	-	(5,000)	-
Other Items	-	-	-

Net Income	**268,000**	**(196,000)**	**353,000**
Preferred Stock And Other Adjustments	-	-	-
Net Income Applicable To Common Shares	**$268,000**	**($196,000)**	**$353,000**

Balance Sheet

PERIOD ENDING	**29-Sep-07**	**30-Sep-06**	**1-Oct-05**
Assets			
Current Assets			
Cash And Cash Equivalents	42,000	28,000	40,000
Short Term Investments	-	770,000	5,000
Net Receivables	1,246,000	1,183,000	1,214,000
Inventory	2,238,000	2,057,000	2,062,000
Other Current Assets	70,000	149,000	164,000
Total Current Assets	**3,596,000**	**4,187,000**	**3,485,000**
Long Term Investments	-	-	133,000
Property Plant and Equipment	3,693,000	3,945,000	4,007,000
Goodwill	2,485,000	2,512,000	2,502,000
Intangible Assets	126,000	136,000	142,000
Accumulated Amortization	-	-	-
Other Assets	327,000	341,000	235,000
Deferred Long Term Asset Charges	-	-	-
Total Assets	**10,227,000**	**11,121,000**	**10,504,000**
Liabilities			
Current Liabilities			
Accounts Payable	1,299,000	942,000	1,413,000
Short/Current Long Term Debt	137,000	992,000	126,000
Other Current Liabilities	679,000	912,000	618,000
Total Current Liabilities	**2,115,000**	**2,846,000**	**2,157,000**
Long Term Debt	2,642,000	2,987,000	2,869,000
Other Liabilities	372,000	353,000	169,000

Deferred Long Term Liability Charges	367,000	495,000	657,000
Minority Interest	-	-	-
Negative Goodwill	-	-	-
Total Liabilities	**5,496,000**	**6,681,000**	**5,852,000**

Stockholders' Equity			
Misc Stocks Options Warrants	-	-	-
Redeemable Preferred Stock	-	-	-
Preferred Stock	-	-	-
Common Stock	37,000	37,000	37,000
Retained Earnings	2,993,000	2,775,000	3,013,000
Treasury Stock	(226,000)	(230,000)	(238,000)
Capital Surplus	1,877,000	1,835,000	1,867,000
Other Stockholder Equity	50,000	23,000	(27,000)
Total Stockholder Equity	**4,731,000**	**4,440,000**	**4,652,000**
Net Tangible Assets	**$2,120,000**	**$1,792,000**	**$2,008,000**

Tyson Foods has several strengths. Their brand name is trusted and well-known, allowing buyers of these products to have a certain amount of reliability when buying from Tyson that the products they will be getting are consistent with experiences they have had in the past. In addition, Tyson is able to manage the quality of their products due to the breeding of their own cattle, chickens, and hogs. This allows a certain amount of differentiation which gives Tyson an edge over competition, as long as Tyson is able to justifiably claim that their products are of better quality because of this fact. An additional strength would be the industry that they are in. Despite the rising food costs, the industry itself is becoming more difficult to enter due to the increase in regulations regarding food safety. The higher cost of food also acts as a regulation for new entry, preventing smaller companies that may have higher costs from effectively entering the market.

One of Tyson's most prominent weaknesses is the public opinion about their impact on the environment. The "Green" concept is very popular in today's society, and Tyson does not seem to be going along with it. They have recently been accused of violating state and federal laws regarding the amount of animal waste that is produce from their operations. This waste ends up in rivers, decreasing the health of the environment in which they are operating. A simple and effective option in order to handle this would be to compost the animal waste; in addition, it is possible to sell this compost to local businesses for profit.

A major threat to Tyson is an increase in the cost of animal feed. An increase in the price of corn and soybean meal has led to an additional $500 million expenditure on animal feed. An effective method for dealing with this potential threat is not simply to raise prices of the products, but to decrease the focus on selling commodity products, such as bonein chicken, and increase sales of value-added goods. This would allow Tyson to sell more products that they may charge a premium for simply due to the added value of the good to the consumer. The amount to trade off commodity for value-added would depend on the location where the end-products would be sold. This is where the aforementioned research and development would come into play, as it may be necessary to test this conversion on a small scale of approximately 200 data points and use the results to calculate a concrete estimate of production changes.

An opportunity that Tyson Foods is capitalizing on is the marketing tactic of advertising their products as generally healthy. A new label that they had decided to promote advertised that their chicken is "raised without antibiotics that impact antibiotic resistances in humans" (Martin). This additional label will help to separate Tyson products from competitors and increases the perceived value of their goods. This should also add to the value of the brand name of Tyson, allowing new Tyson products to have a greater chance of success.

A major threat to Tyson is the possibility of contamination of their products. The amount of beef that has been recalled due to possible E. coli contamination has maintained high. So far, there have been 20 recalls this year, which is nearly as much as the record of 21 recalls which was attained in 2000 and 2002. The federal government has recommended the use of radiation to "kill E. coli and other pathogens" (Martin). The reason that Tyson and other meat product companies have not tried this method of combating E. coli is due to the increased cost of production that they would incur, as well as a possibly unfavorable consumer reaction to a change in taste and color of the meat. Again, the use of research and development would be effective with this issue so that Tyson would be able to have a much more accurate estimation of the consumer's reaction to any possible changes in the meat. The current method of keeping the meat sanitary includes scalding the carcasses, washing them in acid, and vacuuming microbes away. "The beef industry says it spends $350 million" (Martin) in this way to keep the meat safe for consumption.

In conclusion, Tyson has several good qualities, as well as bad. Their financial position has been rocky as of late, although it seems to be improving. This slip in performance may be attributed to new management. The regulations regarding their products are becoming stricter; however, because they raise their own animals, they are able to control the quality of their products closer than their competitors. Furthermore, this increase in regulation and cost is helping to limit competition for Tyson because there would be less new entrants into the industry.

Sources

BLOOMBERG, NEWS. "Tyson Rewards Top Executives After Return to Profit." New York Times (1/1/1985 to present) [No Volume/Issue] (2007): 10.

Collins, Jim. Good to Great. New York: 2001.

Listokin, Yair. "The Empirical Case for Specific Performance: Evidence from the IBP-Tyson Litigation." Journal of Empirical Legal Studies 2.3 (2005): 469-93.

Martin, Andrew. "Stopping Deadly Bacteria." New York Times (1/1/1985 to present) [No Volume/Issue] (2007): 1.

Martin, Andrew. "Tyson Finds a Label for Its Antibiotic-Free (Well, Almost) Chicken." New York Times (1/1/1985 to present) [No Volume/Issue] (2007): 1.

THE, ASSOCIATED PRESS. "Earnings Slide 40% at Tyson Foods." New York Times (1/1/1985 to present) [No Volume/Issue] (2008): 6.

THE, ASSOCIATED PRESS. "Tyson Looks Abroad." New York Times (1/1/1985 to present) [No Volume/Issue] (2007): 4.

Tyson Foods. 28 March 2008. http://www.tyson.com/

Yahoo! Finance. 30 March 2008. http://finance.yahoo.com/q?s=JNJ