

EZ-Pleeze Food Company

Company and Industry Profile

EZ-Pleeze is a food company that provides chicken and beef products in the United States. The company started operations in the early 2000s. Their plant and headquarters are located in Statestown, Illinois. The founder was a livestock and poultry farmer for over 25 years. Due to family health issues, he will be stepping down as the CEO of the company at the end of 2015. In order to move past their competitors, they need to develop both a domestic and global expansion strategy for implementation. The primary factors in the poultry and meat industry include—but are not limited to—price, product line, and customer service.

The company went public in 2008. Since EZ-Pleeze started, the market has experienced a downturn, which usually happens every three years. As a result, they attempted to focus on the development of other chicken and beef products in the processed food market. Their market research indicated that consumers wanted healthy foods with great taste. In order to become more competitive and meet consumer demand, the company had to invest in new technology for preparation of the meat products. However, the technology investment for this type of meat preparation costs over 20 million dollars. This required them to raise their prices. Their overall business strategy was to produce value-based products with consistent profit margins rather than traditional (lower value products, whole ice-pack) chickens, which often had volatile profit margins.

Another strategy that EZ-Pleeze used was to lower the price of their processed chicken and beef products in hopes of breaking into the market against their chief competitors, such as Yellow Down Foods and Beefchix Industries. In addition, they had to invest heavily in marketing and advertising, averaging \$5–7 million per year. The cost of the marketing campaigns, along with the addition of technology, caused a major financial drain on the company. They laid off 10% of their workforce (both administrative and labor employees) in an effort to remediate the financial damage. The company suffered major net losses from 2008–2010. As a result, shareholders began to dump their stock. In fact, the company was very close to filing bankruptcy. Fortunately, they were able to turn this situation around by reducing their primary revenue channel from supermarkets and moving into the food service market (as an alternative to their competitors). They were able to rebound with several successive years of growth. However, the past three years have indicated a decline in chicken sales but a slight increase in beef sales. The current marketing budget is flat at \$5 million per year and will not increase until 2017. The cost of goods sold is high, and reduced financial stability limits growth and acquisitions.

EZ-Pleeze has been competing for the grocery store retail chains for many years. They offer a diversified portfolio of chicken and beef products and believe that the infrastructure is in place to customize new products. They maintain consistent contact with their customers to ensure that their needs are being met. The company now supplies more than 50% of the largest fast food restaurant chains in the United States, many of which are considering overseas expansion. As of the second quarter of 2015, they are already at 66% of their total sales revenues (\$11.4 billion) for FYE 2014.

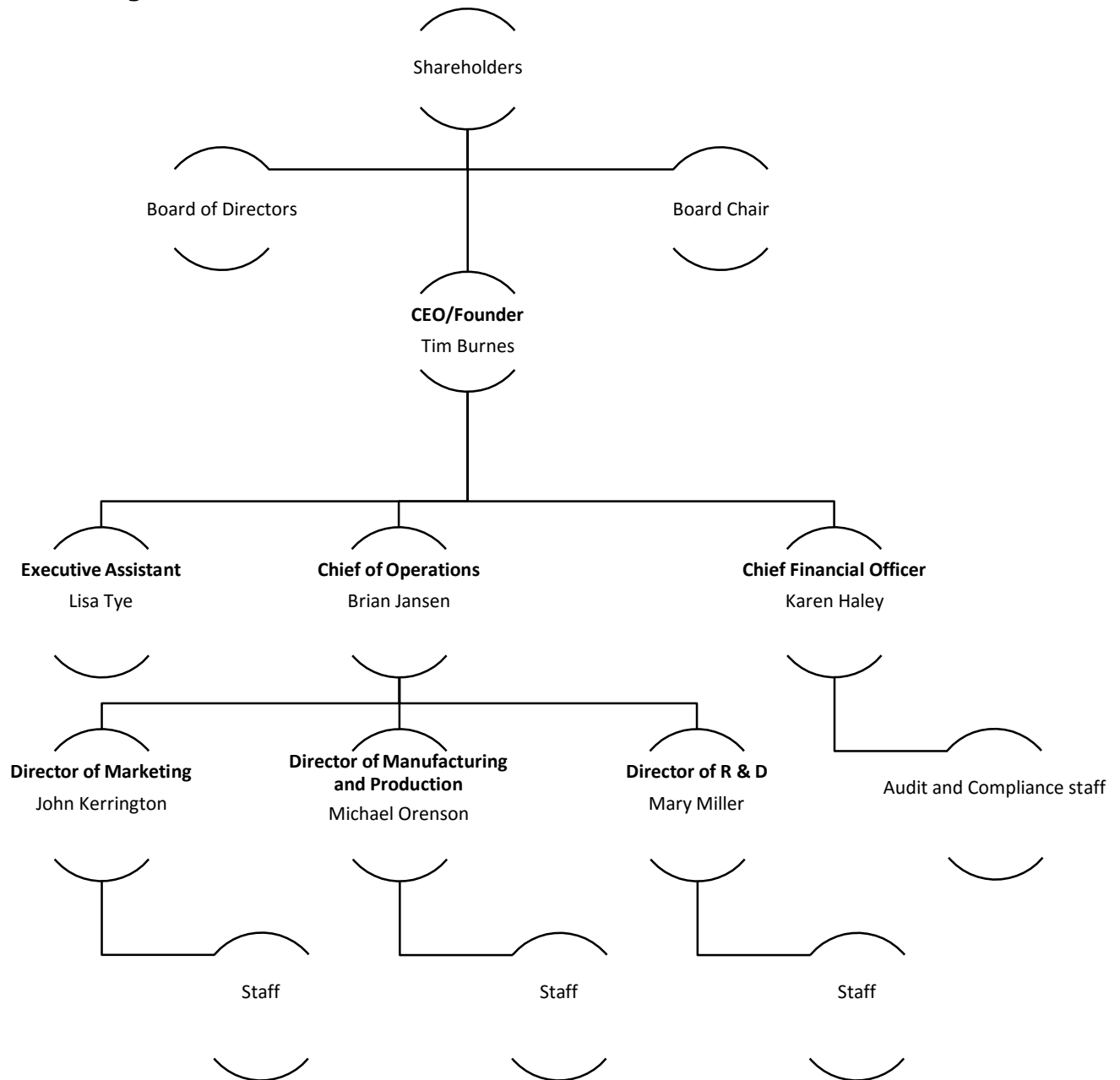
One of EZ-Pleeze's beef competitors just announced that they are closing their operations at the end of this year. One of EZ-Pleeze's chicken competitors was recently acquired by one of their beef competitors. As a result, that beef competitor has now moved up to one of the top five producers of chicken and beef in the United States. Due to the rapid changes within

the industry, they must develop an updated strategic plan for the next three years in order to become one of the top three producers of chicken and beef products in the United States. Research indicates an increased demand for chicken. Chicken has significant price advantages over other meats, demand is increasing for prepared chicken, exporting meats can be done, and new treatments for Salmonella have emerged. Industry challenges include factors such as increased government regulations, labor-intensive working conditions (which have contributed to negative publicity), strong competition from Yellow Down and Beefchix Industries, and thin profit margins. The strategic plan will be presented to the senior executive team for their support. EZ-Pleeze is currently the second largest chicken producer in Mexico with sales of \$2.28 billion. **(See their sales revenue over the previous three years below).**

Company Profile, Philosophy and Outlook

Ez-Pleeze has a hierarchical structure. The division heads report directly to the CEO/Founder. The founder will be stepping down at the end of the fiscal year, ending December 2015. Because they are a publicly traded company, they also have a board of directors, as well as compliance regulations of which to adhere, relevant to business operations and manufacturing processes.

EZ-Pleeze Organizational Chart



The senior executive leadership team will serve as the audience at the strategic planning presentation. The audience will include the COO, CFO, and three director-level leadership positions.

Senior Executive Leadership Team:

- Chief of Operations: Brian Jansen
- Chief Financial Officer: Karen Haley
- Director of Marketing: John Kerrington
- Director of Research and Development: Mary Miller
- Director of Manufacturing and Production: Michael Orenson

The company believes that its biggest asset is its employees. As a result, the company provides health and wellness programming to assist them in performance and productivity. In addition, the company provides opportunities for professional development and growth

(tuition, promotions, and employee credit unions). Second, the company consistently strives to be a good corporate citizen with sustainable business practices, as well as community philanthropy and volunteerism. Their R&D division and lab not only enable the employees an opportunity to contribute creative and innovative ideas for best practices, but also continue to be a leader in industry-related technology for reducing genetically modified organisms (GMOs), as well as salmonella prevention.

Vision

"To become recognized as one of the top three chicken and beef producers in the United States and the world."

Mission

EZ-Pleeze is currently the fifth largest chicken and beef products company in the United States. In the United States, we lead the industry in research and development (R&D) focused on nutrition, genetic modification, and technologies related to meat products processing. EZ-Pleeze business philosophy is to provide the highest quality products and customer service. In addition, we believe in investing in the quality performance, safety, and well-being of our employees. Most importantly, we take pride in using innovation and creativity to build consistent profitability for our shareholders.

EZ-Pleeze U.S. and Mexico Sales Revenues (in thousands)

	2012	2013	2014	2015
Sales				
United States	\$11,029,030	\$10,534,580	\$10,026,520	\$ 9,111,810
Mexico	\$ 2,545,000	\$ 2,780,870	\$ 2,749,970	\$ 2,281,290
Total Sales	\$13,574,030	\$13,315,450	\$12,776,490	\$11,393,100
Operating income (loss)				
United States	\$ 881,770	\$ 362,790	\$ 293,210	\$ 297,050
Mexico	\$ 213,270	\$ 409,770	\$ 345,730	\$ (82,010)
Total income	\$ 1,095,040	\$ 772,560	\$ 638,940	\$ 215,040
Identifiable assets				
United States	-----	\$ 4,245,910	\$ 4,042,130	\$ 3,635,430

Note: Sales revenues for 2015 are from the last reported quarterly earnings through June 2015.

EZ-Pleeze Top Two Competitors

Although there are a number of competitors by segment, based on the meat type and preparation, the top two competitors of EZ-Pleeze for chicken and beef products are Yellow Down Foods and Beefchix Industries. There is a large gap in sales revenues for the top five companies, as the industry is volatile (due to the various competitive forces). A brief synopsis of company history, product offerings, business strategy, and SWOT analyses are included for both Yellow Down Foods and Beefchix Industries in Appendices B1 and B2, respectively.

Yellow Down Foods

Yellow Down Foods is engaged in the production and distribution of chicken, beef, pork, prepared foods, and related allied products. The company primarily operates in the United States. It is headquartered in Orange County, Mississippi, and employs about 115,000 people. The company recorded revenues of \$37.58 billion during the financial year ended September 2014 (FY2014), an increase of 6.5% over 2013. The increase in revenues was

largely driven by the increase in average sales prices. While all segments had an increase in average sales prices, the majority of the increase was driven by the beef and pork segments. The operating profit of the company was \$1.556 billion in FY2014, compared to an operating loss of \$215 million in 2013.

The net profit was \$780 million in FY2014, compared to a net loss of \$547 million in 2013. Yellow Down Foods is the world's largest processor and marketer of chicken, beef, and pork products and the second largest food products company in the Fortune 500 list. The company operates with a vertically integrated production process and supplies meat and allied products to customers throughout the United States and 100 other countries. The company commands 20%, 22%, and 18% market share of the United States' chicken, beef, and pork production, respectively. Moreover, its wholly owned subsidiary, Gold-Lucess, is the number one poultry breeding stock supplier in the world. Also, Yellow Down Foods holds a significant market share in several prepared foods categories. It is the largest supplier of pepperoni and pizza toppings to the food service industry, second largest manufacturer of flour and corn tortillas and chips in the United States, and a leading supplier of bacon and hams to the food service industry.

Sales Revenues Fiscal Year End (FYE) (in thousands)

2012	\$33,278,000
2013	\$34,374,000
2014	\$37,580,000

Yellow Down Foods produces, distributes, and markets beef, chicken, pork, prepared foods and related allied products. The company operates in four segments: beef, chicken, pork and prepared foods. The company's integrated operations consist of breeding and raising chickens, as well as processing, further-processing, and marketing these food products and related allied products, including animal and pet food ingredients. The company also processes cattle and hogs and fabricates dressed beef and pork carcasses into primal and sub-primal meat cuts, case-ready products, and fully cooked beef and pork products. In addition, the company also produces value-added products derived from hides and other varieties of meats. Additionally, Yellow Down Foods offers a range of packaged food products including pepperoni, bacon, beef, and pork pizza toppings; pizza crusts; flour and corn tortilla products; appetizers; prepared meals; ethnic foods; soups; sauces; and meat dishes. Besides a diversified product portfolio, the company also has a diversified stream of revenues.

For the FY2014, the beef segment contributed 39.9% of the total revenues, followed by chicken (34.3% of 2014 revenues), pork (15.5%), and prepared foods (10.2%). A broad and diversified portfolio of products not only enhance market share of the company across various markets, but it also gives a diverse revenue stream to the company. This, in turn, limits the company's exposure to the risks associated with a particular segment. A diversified distribution channel enhances the company's bargaining position.

Yellow Down Foods serves a strong clientele base, including from wholesalers, retailers, restaurants, and institutional customers, such as schools and hospitals. Some of the company's top clients include top retail chains and fast food chains, among others. The company's consumer products distribution channel—which comprises U.S. retail channels

(including all major grocery chains), wholesale club stores, convenience stores, drugstore chains, and military commissaries—contributed nearly 45% of the company's sales in FY2013.

The food service distribution channel—consisting of the major national restaurant chains, including fast food, casual, mid-scale, and fine dining; as well as on-site foodservice venues, including hospitals and school cafeterias—accounted for 34% of sales in the fiscal year. The international export market accounted for 15% of the company's sales. Refrigerated deli and others accounted for the remaining 6% of the company's sales. Furthermore, a major retailer accounted for approximately 13.4% of the company's FY2013 consolidated sales. No other single customer or customer group represented more than 10% of the company's FY2014 consolidated sales. The diversified distribution channel and revenue source indicates the company's lesser dependence on few customers, which in turn, implies higher bargaining power in pricing and shelf-space decisions as compared to national and local retailers.

Weaknesses

Huge indebtedness negatively impacts the company's business and liquidity position. The company is subject to high indebtedness, which could have a negative impact on its overall operation. During FY2014, the company had about \$2.53 billion of total debt as compared to \$3.47 billion in 2013. The company had to utilize its operating cash to repurchase, retire, or redeem \$956 million of senior notes. The company's cash flow of \$1.43 billion could be utilized to manage the debt levels; however, this implies diversion of resources from business expansion prospects. Moreover, a higher debt component in the balance sheet would put pressure on the company's ratings and eventually would make the additional financing for working capital, capital expenditures, or acquisitions difficult.

Opportunities

Yellow Down Foods has been exploring ways to commercialize energy production from animal fats and other by-products from its operations, as well as the poultry litter of the company's contract growers. The company has initiated several steps for exploring opportunities in the renewable industry. Construction of the company's new Dynamic Fuels plant, a joint venture between Yellow Down Foods and Direnium Corporation, was finished in July 2014. The plant would produce renewable diesel by using non-food-grade animal fats rendered or procured by Yellow Down Foods, such as inedible beef tallow, pork choice white grease, chicken fat, and used cooking grease. Earlier, in 2011, the company entered into a strategic alliance with Airfast oil to produce renewable diesel fuel using beef, pork and chicken fat as the raw material. Venturing into the alternative fuel business marks the company's foray in a highly lucrative industry. The company could capitalize on its plants and technological capability to drive its revenue growth through the favorable market scenario. Yellow Down Foods has been expanding its operations in China and India, the two emerging markets with a buoyant economy and population. Expansion in India and China would increase the company's customer reach. While per capita chicken consumption is less than five pounds a year in India, its annual growth rate of more than 10% is among the highest in the world. On the other hand, annual per capita meat consumption in China is about 20 pounds per person, compared to 89 pounds in the United States.

Fast Food Chain in Chinese Markets

With a population of 1.3 billion and chain restaurants opening at a rate of one every 18 hours, the Chinese market's growth potential is immense. The company has been operating in China since 2001 on a small scale. It made significant inroad in the Chinese market in 2008 and established Lamisu Yellow Down Foods to produce fresh chicken sold under the Yellow Down Foods brand for the Shanghai retail market. In later parts of 2008, Yellow

Down Foods entered into another joint venture agreement with Sharontop Group, one of China's leading poultry producers, involving vertically integrated poultry operations in eastern China.

Joint Venture and Acquisitions

As far as the Indian market is concerned, Yellow Down Foods has expanded its operations by acquiring majority ownership in one of the leading poultry processing businesses in India. In 2008, the company purchased 51% ownership of YZA Foods, based in Mumbai. YZA Foods is a subsidiary of Elanini, one of India's leading agribusinesses. The joint venture between Elanini and Yellow Down Foods is called Eyedown.

Yellow Down Foods produces retail fresh chicken under the Real Good Chicken brand and further-processed chicken under the Yancy brand. The company could capitalize on the acquisitions and partnerships to expand the production capacity of its existing operations in the region and build additional processing facilities to better reach consumers, so as to target higher market share in the region. Higher hog prices would result in better sales earnings. The year-over-year lower pork supplies and higher consumer demand for pork products have been driving the hog prices in the United States during 2014. As per industry estimates, the commercial pork production in the third quarter of 2014 is projected to be 5.4 billion pounds, nearly 5% lower than the same period last year. The production is likely to decline by 2% during the fourth quarter of 2014 as compared to the fourth quarter of 2013, amounting to 5.9 billion pounds. The average wholesale pork prices (USDA Estimated Pork Carcass Cut-out) for August 2014, on the other hand, increased by 40% as compared to the prices for the same period last year. Furthermore, the pork prices rose significantly during the October 2014 to February 2015 period. The prices of 51-52% lean hogs, after declining for three months period following August, again rose to \$0.83 per pound in February 2015, reflecting an increase of 31.1%.

Global Consumer Demand and Pricing

In addition to the domestic factors, the rising demand from countries like China and Mexico have also contributed to the increase in the hog prices. Due to the higher international demand, the US pork exports are estimated to increase by 10% during the second half of 2014, further accelerating the price increase. The impact of price increase was evident on the company's 2014 financial performance. The increase in average sales price, primarily in beef and pork segments, positively impacted the company's revenues and added \$1.9 billion to sales. Consequently, the company was able to record 6.5% increase in revenues in FY2014. The positive price scenario in 2015 would further have a positive impact on the company's revenues in the next fiscals also.

Threats

Increasing commodity costs threaten Yellow Down Foods. Yellow Down Foods depends on commodities for its production—such as corn, cocoa, soybean meal, soybean oil, wheat, dairy, and natural gas—which are subject to price fluctuations. In fiscal 2013, corn and soybean meal constituted the major production costs for the company, representing roughly 42% of the cost of growing a live chicken. However, the decline in the corn production in the United States and subsequent rise in corn prices has pushed up the operating cost for meat products companies like Yellow Down Foods, Inc.

During September 2014, corn futures reached \$5.2 per bushel on the Chicago exchange, the highest price for a most-active contract since September 2008. According to industry watchers, the average farm price for corn is projected to be in the range of \$6-7 per bushel. Soybeans, another important raw material, gained 7.5% through March 2015 after crude oil increased to the levels of prior two years, boosting the appeal of biofuels. The nuclear

radiation leak in Japan and ongoing political crisis in Libya and other Middle East and African countries would further add to crude oil prices, which will indirectly increase soybean prices. The upward movement in feed grains prices, hence, would subsequently negatively impact the company's margins and its profitability.

Competition

With the entry of more new players in this market, the current level of competition is expected to further intensify in the near future, which may result in price reductions. The company competes with a broad range of food products which are manufactured and distributed by companies with substantially greater financial, marketing, and distribution resources. If the company is not able to maintain the product quality and consumer loyalty, this intense competition could reduce the sales volume of the company, thereby hampering its market position.

Laws and Regulations

Yellow Down Foods' operations are subject to extensive federal, state and foreign laws and regulations by authorities that oversee food safety standards and the processing, packaging, storage, distribution, advertising, and labeling of its products. The company's facilities for processing chicken, beef, pork, prepared foods, and milling feed, and for housing live chickens and swine, are subject to a variety of federal, state and local laws relating to the protection of the environment—including provisions relating to the discharge of materials into the environment—and to the health and safety of its employees.

	Yellow Down Foods Profile
Parent Company	Yellow Down Foods, Inc.
Category	Food Processing
Sector	Food and Beverages
Tagline/ Slogan	Have you had your Yellow Down Foods today? It's what your family deserves.
USP	Diverse group of supply partners
Segment	Business involves distribution and marketing of poultry, animal meat (beef, pork) and prepared foods and related allied products.
Target Group	Retail grocers, broad line food service distributors, national fast food outlets and full service restaurant chains.
Positioning	Offering products that are second to none in food safety, quality, and variety
Strengths	1. The company is one of the largest producers of meat and beef in the world. 2. It has a strong presence across USA. 3. Over 115,000 employees form a formidable workforce. 4. The company has over 300 facilities spread across US and abroad. 5. It has associated with major fast-food chains.
Weaknesses	1. The brand has limited presence outside USA and intense competition means limited market share. 2. Allegations of environmental issues and animals has hurt the brand image.
Opportunity	1. More branding and visibility to enhance efforts made. 2. Global tie-ups to increase global reach.

	3. Acquiring smaller firms to further strengthen its position.
Threats	1. Changing customer preferences 2. Objection from organizations which promote vegetarian food. 3. Economic fluctuations and falling prices can affect operations.
Competitors	1. Beefchix Industries 2. Greenrich Foods 3. Garanimal Foods

Beefchix Industries

Beefchix Industries is one of the world's largest beef and pork processing companies and is a subsidiary of a publicly-listed, Brazilian-based company. Beefchix Industries is traded on the Brazil Stock Exchange, in the Novo Merced segment, under the ticker **BFCHIX**.

Carnivores have a friend in Beefchix Industries. With a daily slaughter capacity of 86,000 head of cattle, Beefchix Industries is the world's biggest beef (and pork, poultry, and lamb) processor and exporter. In addition to fresh and processed beef and pork (it is the #3 pork producer in the United States), Beefchix Industries offers cooked and canned meats, ready-to-eat meals, as well as hides and dairy products. Beefchix Industries sells beef domestically under the Orange brand. It also owns about 75% of U.S. poultry giant Clucketty. Beefchix Industries exports products worldwide; top markets include Japan, the Middle East, Africa, and Mexico. Positioned as an integrated food company, Beefchix is expanding in the United States and Australia. The Hazen family, through Mecantida, owns 47% of Beefchix Industries.

Past Business Strategy

Managing its growth strategy is challenging the company's already full plate of activities. Beefchix posted almost a 60% increase in year-over-year revenues in 2010, fueled in part by its business acquisitions, and marking it as Brazil's third largest company by revenue. Earnings before interest and taxes soared, too. Nonetheless, net earnings plummeted to roughly a \$180 million loss, eroded by debt (which swelled by more than 20%) and other costs. Among these costs was that to restructure its US operations (including consolidation of Clucketty) simultaneous with incorporating Gertrude (a Brazilian meatpacker taken over in late 2009) with the Beefchix Industries. In addition, another internal food division has taken a toll on working capital, resulting in higher financial expenses.

Adding to its frustration, after two unsuccessful runs at Imelda Company in 2011 and late 2010, Beefchix Industries ended its attempt to buy an iconic cheesecake maker. A takeover of a U.S. packaged meat business would have consolidated Beefchix' power as a global integrated meat producer, rivaling U.S.-based Yellow Down Foods and Greenrich Foods (major pork producer). Following Beefchix Industries' second failed bid, William Cierra succeeded his brother Marcus as company CEO. William, formerly head of Beefchix Industries Holdings, has more than two decades of experience in the company. Under Marcus, Beefchix Industries undertook an aggressive international expansion strategy, culminating in alliances and acquisitions in Brazil, Australia, Europe, and the United States. In late 2010, Beefchix Industries entered a 50/50 joint venture with Bluelime Beef Jerky, a maker of the top US meat snack brand. Concurrently, Bluelime purchased a beef jerky manufacturing plant from Beefchix Industries from which Beefchix Industries agreed to supply raw meat to Blue Lime for processing, packaging, and distribution.

Significant acquisitions have included taking over the ailing Clucketty (2009). The deal marked Beefchix entry into the U.S. poultry industry and rank as the number 2 poultry

producer in the world, with a daily slaughtering capacity of 7.9 million birds. After acquiring its initial stake in Belgium Prize (chicken industry competitor), Beefchix Industries upped its holding to more than 67% in late 2010, and later to 75% in 2012.

Beefchix Industries also bought out US beef producer Endothon Foods (2007). In order for Beefchix Industries to diversify its funding resources and raise money for acquisitions, the company in 2009 filed to take Beefchix Industries public. It delayed the IPO and paid an approximately \$240 million penalty for its inaction (which added to the company's loss in 2010). In early 2011, Beefchix Industries withdrew the IPO.

Sales Revenues Fiscal Year End (FYE) (in thousands)

2012	\$ 75,696,710
2013	\$ 92,802,798
2014	\$120,469,719

	Beefchix Industries Profile
Parent Company	Beefchix Holdings.
Category	Food processing
Sector	Food and beverages
Tagline/ Slogan	Leaders in quality. Leaders in service.
Meat Processor, Products, services, etc.	Largest animal protein processor in the world and top-of-mind awareness when consumers are making their beef, pork or chicken purchasing decisions.
Segment	Business, food, leather, pet products and biodiesel
Target Group	Industry/people looking for savory meat products
Positioning	Provide the best possible service, selection and value to customers
Strengths	1. The company is one the biggest food processing companies in Brazil. 2. It has a strong workforce of over 125,000 employees. 3. It has plants in Brazil, United States, Argentina, and Australia. 4. The brand has a reach in nearly 110 countries. 5. Acquisitions have made the brand strong in the segment.
Weaknesses	1. Geographical concentration in the United States is a concern. 2. Despite being a popular brand, the company has limited presence and penetration in emerging economies
Opportunities	1. Increasing meat demand globally 2. Growing organic foods market 3. Acquisition of small business units and more visibility
Threats	1. Stringent government regulations 2. Disease related to cattle and poultry 3. Increasing competition from existing players
Competitors	1. Yellow Down Foods 2. Greenrich Foods 3. Garanimal Foods