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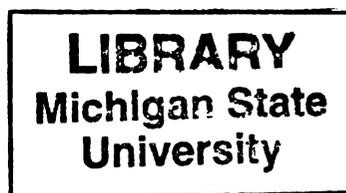
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**IMPACT ANALYSIS OF SARA LEE'S CORPORATE RESTRUCTURING ON
MICHIGAN'S TURKEY INDUSTRY AND SOUTHWEST MICHIGAN'S LOCAL
ECONOMY**

By

Spencer Antonio Burrows

A THESIS

**Submitted to
Michigan State University
in partial fulfillment of the requirements
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2000

ABSTRACT

IMPACT ANALYSIS OF SARA LEE'S CORPORATE RESTRUCTURING ON MICHIGAN'S TURKEY INDUSTRY AND SOUTHWEST MICHIGAN'S LOCAL ECONOMY

By

Spencer Antonio Burrows

In 1998, the Sara Lee Corporation decided to restructure its value chain by diverging from manufacturing many of its products to outsourcing and concentrating its resources on developing and managing its brands. In light of this change, Bil Mar Foods, a subsidiary of Sara Lee located in Zeeland, Michigan, responsible for the processing of its packaged meat products such as hot dogs, shut down its turkey slaughter facilities and expanded into a full processing plant. The company also opted not to renew the expired production and marketing contracts of turkey growers and bought out the existing contracts of other growers. This action left turkey growers in the region without a market for their live birds.

To assess the implications of Sara Lee's decision on the turkey growers in southwest Michigan and the effects on the local economy, an impact analysis using the statistical software Micro IMPLAN was conducted. Results show that shutting down the kill floor at Bil Mar will have an effect of approximately \$65.5 million in total lost output and total lost employment in excess of 600 persons. This effect includes not only those persons in the industry directly impacted, but also those indirectly affected in other industries. As an option for redress, the formation of a cooperative, the Michigan Turkey Producers Cooperative (MTPC), will provide significant economic relief.

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I would like to thank a few people that have helped me to arrive at this point.

To God for always being there to open doors and ensure that I stayed focused on achieving my goal of pursuing a higher education and making my family proud.

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INTRODUCTION

In 1998, the Sara Lee Corporation decided to restructure its value chain by diverging from manufacturing many of its products to outsourcing and concentrating its resources on developing and managing its brands. In light of this change, Bil Mar Foods, a subsidiary of Sara Lee located in Zeeland, Michigan responsible for the slaughter of live turkeys and the processing of its packaged meat products such as hot dogs, shut down its turkey slaughter facilities and expanded into a full processing plant. The company also opted not to renew the expired production and marketing contracts of turkey growers and bought out the existing contracts of other growers. This action left turkey growers in the region without a market for their live birds.

The aim of this research is threefold: to assess the situation in the turkey industry, to study Sara Lee's strategic initiative by conducting a SWOT analysis, and to assess the impact of Bil Mar's closure of its slaughter facilities on southwest Michigan's local economy. The analysis of the turkey industry is important in that it will give a background of industry trends and provide a clear understanding of the industry's life cycle and the behavior and strategies of companies in the industry. The SWOT analysis will provide insight to Sara Lee's previous strategy, its internal strengths and external opportunities and threats. An analysis of its competitors in the diversified foods industry will also be conducted to examine trends in the industry. This will then help to make clear the reason for the rethinking of its strategy and how this decision will help Sara Lee to remain competitive.

The impact analysis will involve conducting an input-output analysis to determine the impact on those local businesses (e.g., turkey growers) directly affected by the shut

down of Bil Mar's slaughter facilities. Additionally determined are the indirect effects on businesses that are input suppliers to those turkey growers (e.g. soybean processing plant), and the induced effects on those local businesses that depend on the patronage of persons directly and indirectly affected by the closing of Bil Mar's slaughter facilities.

CHAPTER 1: ANALYSIS OF THE TURKEY INDUSTRY¹

The turkey industry has experienced steady increases in production and consumption over the years, but the last decade has shown a distinct disparity in pounds produced and consumed (USDA, NASS Agricultural Statistics 1999). As turkey growers continue to search for ways to improve profits, the result has simply been to increase production. This action has, on a widespread scale, somewhat flooded the market with turkey and lowered the prices in this mature industry. With domestic demand flat, producers sought to expand their market internationally. Therefore, increasing exports have helped to balance out the disparity. The number of pounds exported has increased significantly from 54 million pounds in 1990 to 430 million pounds in 1999 (USDA, Poultry Production and Value, 1998).

The history of turkey and its place in the diet of Americans has primarily been as seasonal meat, consumed mostly during Thanksgiving season and sparsely throughout the year. Since the 1970s, turkey production and consumption levels both have experienced steady increases to 5,186 million pounds produced and 4,781 million pounds consumed in 1999. It was during the 1970s that turkey consumption initially began experiencing increasing trends due to the introduction of deli meats. Sharp increases occurred in the 1980s because of changes in consumer health preferences. It was these changes that became the driving forces for consumer purchases, and year-round production. However, in the 1990s there has been little innovation to spark yet another increasing consumption pattern.

¹ Figures in this thesis are presented in color.

The past few years, however, have yielded significant changes in the U.S. turkey industry. The per capita demand for turkey products has remained stable (Figure 1) (USDA, ERS; Livestock and Poultry Situation and Outlook Report), and future projections imply an increased separation between production and consumption (Figure 2) (USDA Baseline Projections). This stable per capita demand can be attributed to a lack of product, processing and marketing innovation, and competition from other, well established meats. The value of turkeys produced has also experienced recent declining trends. Turkey production in 1998 totaled 7 billion pounds live weight, compared with 7.23 billion pounds in 1997.

Figure 1: Per Capita U.S Turkey Consumption (1970-97)

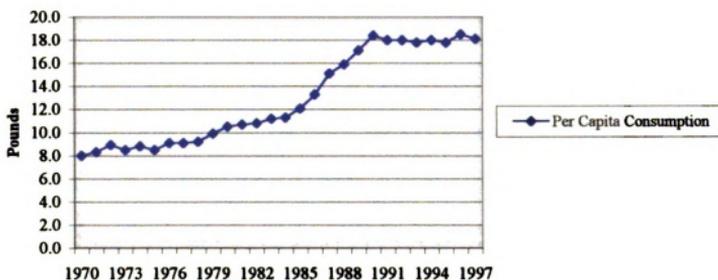
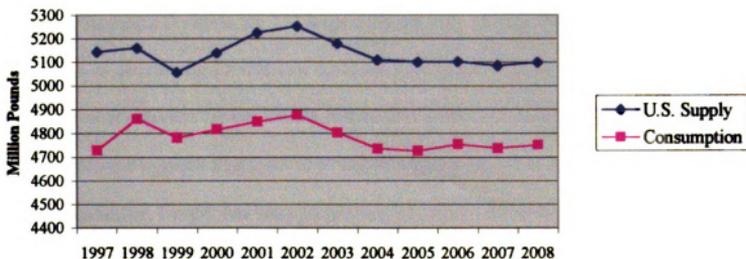


Figure 2: Turkey Baseline Projections (1997-2008)



The average price received by producers during 1998 was 38.0 cents per pound, compared with 39.9 cents in 1997 and 43.3 cents per pound in 1996 (USDA, Poultry Production and Value, 1998).

This reduced quantity and price relationship between the three years implies a potential downward shift in demand. Reduced demand can be attributed to the maturation of the turkey market and its inability to effectively market their products and compete with other meat such as chicken. In order for demand for turkeys to improve, the industry must find new markets to penetrate, implement an aggressive marketing strategy similar to the pork advertising strategy and compete with chicken, which from a cost perspective is extremely difficult.

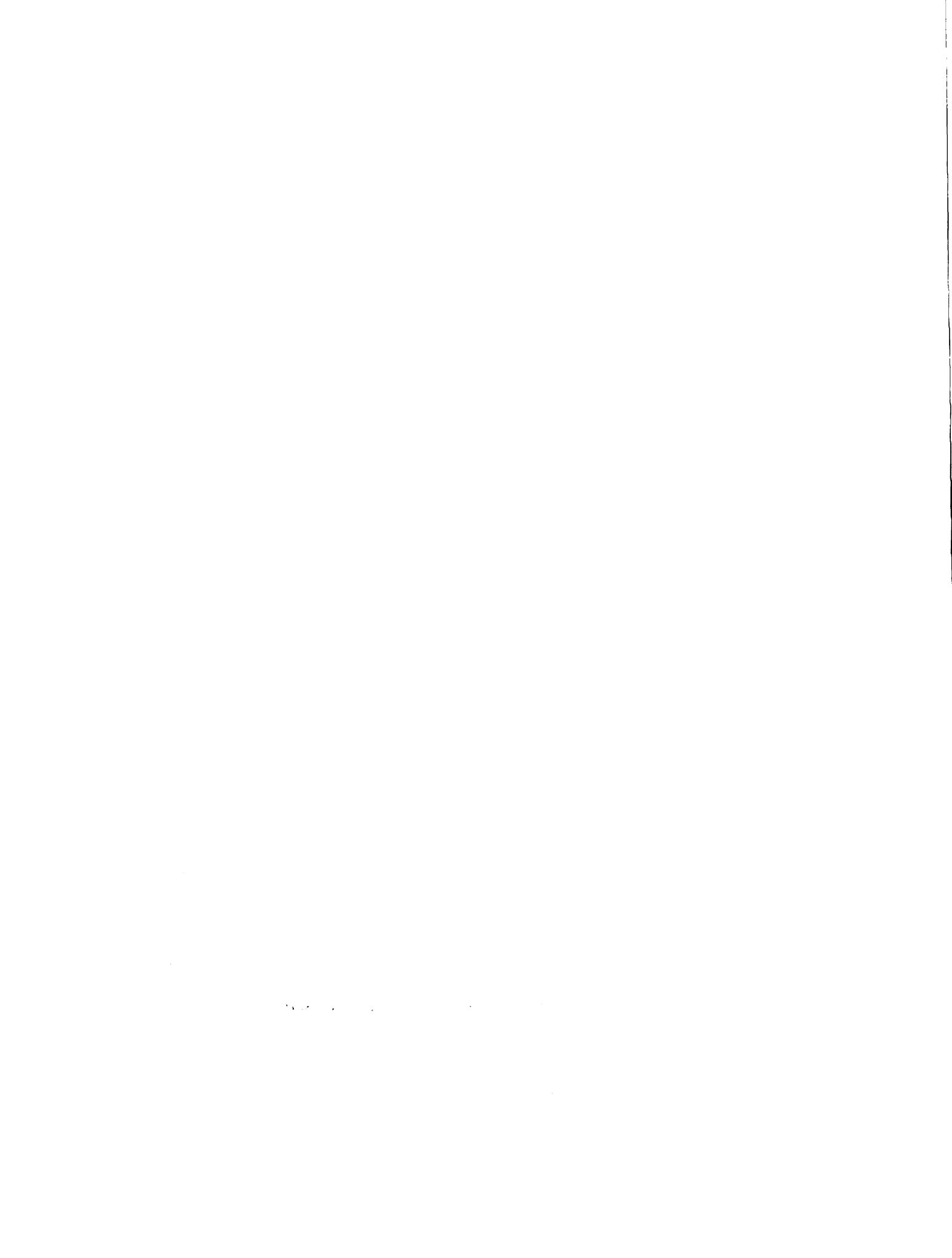
In addition to a potentially declining demand, the industry is also experiencing an overproduction situation. Turkey companies are still trying to exercise a demand push strategy in which they determine the supply of turkeys in the market as opposed to a demand pull strategy where demand is determined by consumers. The latter is characteristic of a mature market and failure to implement the proper strategy has led to product surplus and reduced prices. A list of the top ten turkey firms and their outputs for the past three years are in Table 1. There have been several approaches to the overproduction problem and as the table shows, many firms have decided to cut back on the number of pounds slaughtered while a few have increased production.

Table 1: Top Ten Largest Turkey Firms based on 1998 Live Pounds Processed

Rank/Company	Millions of pounds live slaughter 1997	Millions of pounds live slaughter 1998	Millions of pounds live slaughter 1999	% change in '99 compared with '97
1. Jennie-O Foods Inc.	766	855	860	12.27
2. Butterball Turkey Co.	900	840	790	(12.22)
3. Wampler Foods Inc.	685	619	570	(16.79)
4. Cargill North American Turkey Operations	517	588	725	40.23
5. Carolina Turkeys	456	455	450	(0.01)
6. Shady Brook Farms	497	405	420	(15.49)
7. Bil Mar Foods	415	360	265	(36.14)
8. Louis Rich Co.	360	360	360	-
9. The Turkey Store	355	355	355	-
10. House of Raeford	240	245	245	2.08

SOURCE: Turkey World, January-February 1999

For example, in 1997, Cargill North American Turkey Operations, the fourth largest turkey firm, reached an agreement to acquire 100 percent of Plantation Foods' stock. Plantation Foods is the 13th largest turkey firm and the merger combined its strength of developing foodservice business with Cargill's widespread penetration in the retail grocery stores (Turkey World, September 1998). As a market evolves to maturity, firms attempt to adopt strategies to strengthen their position in the marketplace. Through this acquisition, Cargill has ensured its position as one of the largest turkey firms.



Other strategies involve firms reducing output in an attempt to operate more effectively. For example, Wampler Foods Incorporated. (WRL) announced in January 1998 that due to disease losses, high production costs and industry wide overproduction, it would convert an entire turkey processing plant and other turkey facilities at its Marshville, North Carolina location to broiler chicken complexes (Turkey World, March 1998). Rocco Enterprises Inc., the fifth largest producer of turkey and 28th largest producer of chicken in the United States in 1998, also closed its St. Pauls, North Carolina facility in August 1998 to begin to prepare for the conversion to chicken processing (Turkey World, July 1998). Another large, well-known firm is undergoing the same transformations. ConAgra-owned Butterball Turkey Company signed a purchase agreement to sell its Turlock California, turkey processing facilities to Foster Farms, Livingston, California. Transfer of ownership was scheduled to take place in July 1999. The consolidation of Butterball's production and processing is a strategic initiative that will allow the company to compete more effectively in the marketplace (Turkey World, July 1999).

The actions of Bil Mar and other turkey companies to reduce output had a significant impact on the market. From January to August of 1998, prices paid for turkey breast meat almost doubled (Successful Farming, November 1998). It can be assumed that the timing of Bil Mar's actions is not coincidental. By reducing output through eliminating slaughtering from their operation, Bil Mar has not only cut its cost of production significantly, but it has also helped to increase prices thus increasing its profitability.

There has also been an attempt by WRL Foods and other firms to differentiate through product innovation and improving market penetration. Marketing attempts have been made to make turkey demand comparable to the favorable trends of chicken and other meat products through product innovation. Recent attempts include trying to give a “meaty or beefy” flavor to turkey products to give it a more succulent flavor (Turkey World, November 1997). In 1997, WRL Foods successfully introduced four flavored burgers, including one co-branded with A-1 Steak Sauce. These varieties, also including flavored turkey steaks and sausages, serve to provide consumers turkey products with similar succulent tastes as beef while keeping the low fat attributes.

Improved marketing has also been the target of some companies. For instance, according to Ruth Mack, Executive Vice President for Sales and Marketing at WRL Foods, the company will channel all its resources to become “the brand of choice for consumers” (Turkey World, January 1998). This strategy will entail doing “everything from driving new distribution to advertising to promote our brand to continuing our aggressive new products push” while “providing turkey products in the quantities and in the packages that best fit the various lifestyles rather than talking about turkey as a broad category”, i.e., change from a commodity to a branded product.

Additional assistance in alleviating the economic pressures experienced by producers in the turkey industry came from the U.S. Department of Agriculture in August 1997 where it announced that it would purchase about 20 million pounds of turkey meat for use in the National Lunch Program (USDA, AMS News Release).

All of the top turkey-producing states face the same industry problem. Table 2 below lists the top ten largest turkey-producing states. There has been, as stated earlier,

strategies by the top firms to reduce production in order to attack the industry's overproduction problem. As seen in the table, there have been decreases in the number of turkeys raised in a majority of the states from 1997 to 1999. This is representative of the industry wide strategy to address overproduction; a strategy implemented by many of the top turkey producing firms who procure turkeys primarily via marketing and production contracts, as well as by company-owned farms.

In terms of new market penetration, there has been some attention placed on a seemingly untouched market for turkeys in the foodservice industries. As it stands, 80% of turkey sales are still through grocery store sales, with 7-8% of the market coming from animal-industry related sales. This leaves approximately 12-13% of sales accounted for by foodservice industry. With roughly 45% of consumer food expenditures coming from away from home consumption, this remains a large unrealized potential (Turkey World, March 1999).

Table 2: Top Ten Turkey Producing States; Number Raised in 1997, 1998 and 1999 Projected (1,000 Head)

State	1997	1998	1999	1999 as % of 1997
North Carolina	53,500	50,000	46,500	87
Minnesota	45,500	44,500	43,500	96
Arkansas	30,000	28,000	27,000	90
Virginia	26,000	26,000	24,000	92
Missouri	21,000	22,000	22,000	104
California	21,000	19,000	17,500	83
Indiana	14,500	13,500	13,500	93
South Carolina	11,200	10,600	9,500	85
Pennsylvania	11,600	10,500	9,800	84
Other States ¹	31,611	39,492	29,811	-

SOURCE: NASS, Agricultural Statistics Board, USDA.

¹Include MI, NE, OK, OR, TX, UT, and WI to avoid disclosure of individual operations.

1.1 SARA LEE'S ROLE IN THE TURKEY INDUSTRY

In Michigan, Sara Lee-owned Bil Mar Foods decided to outsource its production processes. In the early months of 1997, Bil Mar reduced its production by converting from a double shift to a single shift operation. In doing so, Bil Mar opted not to renew a number of turkey grower contracts. By the middle of the year, approximately 39 grower contracts in Michigan, Indiana, Ohio, and Ontario had expired. This cut reduced their kill rate from circa 34,000 to 20,000 birds per day. By the middle of 1998, additional contracts that expired were not renewed and in January 1999, Bil Mar shut down its kill

floor and bought out the marketing and production contracts of current growers. Contemporaneously, Bil Mar decided to expand its processing capacity. By concentrating on processing, Sara Lee moved from producing and slaughtering its own turkeys to simply purchasing whole birds and parts as inputs to its expanded processing operation. Without an operation in place to slaughter their birds, Michigan turkey growers were left without a market in the state. As for Bil Mar's employees, either they lost their jobs, took on new jobs in the expanded processing sector, or found work elsewhere. After the shut down, Bil Mar received most of its birds by increasing production at its Storm Lake, Iowa operation. Bil Mar no longer purchased live birds but only bird parts. It is also believed that it increased its commodity market purchases.

The cause for Bil Mar's dramatic restructuring was twofold. First, the driving force was a surplus in the turkey market, due in part to overproduction in a mature market and stagnant demand. Second, the strategy to become a "virtual company" has contributed to the firm's restructuring. The objective was for Sara Lee to reduce its physical assets, but continue its brand name goods. To do this, the company has pursued a strategy of outsourcing production and diverting its attention to brand management, new products and market share, while increasing and improving brand strength and recognition among consumers.

Sara Lee's fundamental reshaping is part of a new, but growing, trend among companies. Companies that face high asset specificity and capital investment often use an outsourcing approach. These companies feel that outsourcing aspects of production and manufacturing transfers risk of investing and sunk costs to the contracted company. This can either free up needed cash flow for other operations deemed more important or

generate a greater return on their investment for stockholders. Firms are realizing that in today's ever-changing markets, building brand leadership and forming intimate customer relationships increases profitability. "The manufacturers, distributors and retailers that for decades dictated the way products were produced and delivered are no longer calling the shots...it's the final consumer who is in control" (Murphy).

Recognizing this, Sara Lee has made a strategic commitment to follow this approach. However, on the flip side, firms such as Archer Daniel Midland (ADM), a subsidiary of ConAgra Incorporated, have taken the approach of full ownership integration. The differences are extreme, own everything or own nothing but the label. Only time will reveal the most effective strategic initiative. By recognizing the fundamental changes in supply chain processes, Sara Lee has made a conscious decision to pursue an outsourcing strategy.

Bil Mar Foods, located in Zeeland, Michigan, was ranked 7th among U.S. turkey companies for the years 1997-99. The company is responsible for the production, slaughter, processing, and marketing of packaged meat products to deli, foodservice, and retail customers under the *Sara Lee Premium*, *Mr. Turkey*, and *Bil Mar* brands. In 1996, Bil Mar processed more than 10 million birds at its plant in Borculo, Michigan. More than half of these birds was produced in Michigan, specifically top-producing Ottawa and Allegan counties with more than 270 turkey farms (Michigan Farm News). The number of growers, however are 123 and a grower can own more than one turkey farm (Rahn). Prior to its decision to cease slaughter operations, Bil Mar's production (liveweight lbs.) had been decreasing from 439 million pounds in 1996 to 360 million pounds in 1998.

Contemporaneously, employment experienced a similar trend, declining from 1,192 FTE² in 1996 to 978 FTE in 1998. In 1999, by cutting their kill rate and expanding into a full value-added facility, Bil Mar has directly impacted approximately 275 slaughtering employees and 123 turkey growers³ (Rahn). Under normal circumstances, the economic impact on turkey growers would be considered “indirect” because they are input suppliers to the slaughtering operation. However, in this unique case, they are considered “direct” as quasi employees of Bil Mar because of the contracts they hold with Bil Mar and the fact that there is no readily available market to sell their live birds in the state. Therefore, any decision Bil Mar makes affects them as though they are its employees. In addition, as will be illustrated, there is a ripple effect from these job losses that will have indirect effects on other Michigan industries.

One of the potential solutions proposed is for turkey growers to form a cooperative that will perform the slaughter tasks that Bil Mar Foods strategically decided to discontinue. The Michigan Turkey Producers Cooperative (MTPC) will be comprised of turkey producers in Michigan’s District 7 located in the Southwest part of the state⁴. Counties in the District include Allegan, Berrien, Cass, Kalamazoo, Kent, Ottawa, and Van Buren. Allegan and Ottawa are the state’s predominant turkey producing counties. Figure 3 details the various county districts in Michigan.

This study proceeds as follows: First, a strategic analysis of Sara Lee is conducted to gain insight to the company’s strengths and weaknesses as well as its opportunities and

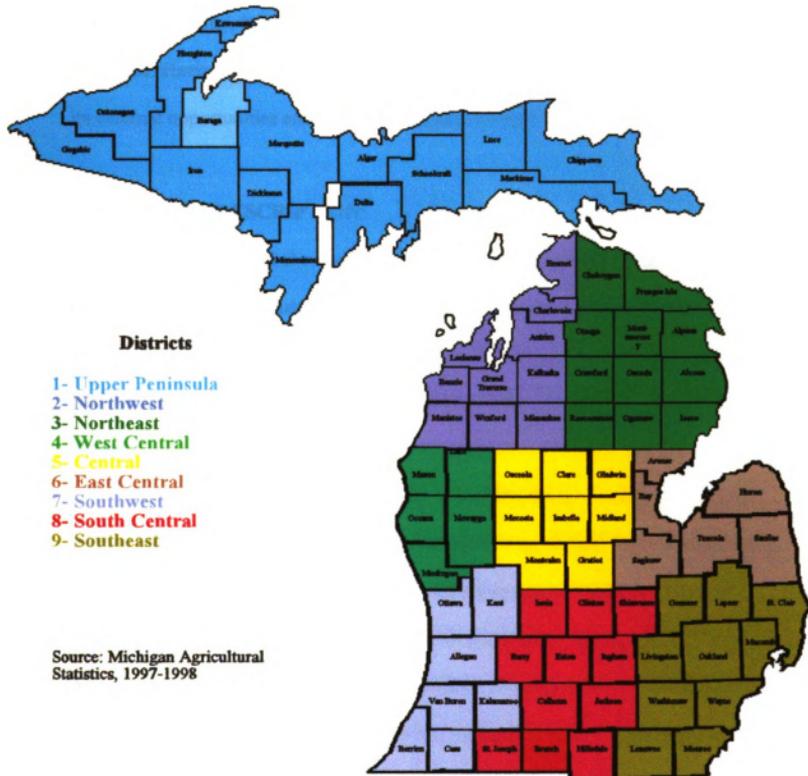
² Full Time Equivalent

³ Numbers do not take into consideration the initial employee cut from 1996 to 1998.

⁴ Michigan Department of Agriculture; Michigan Agricultural Statistics

threats. The analysis will also bring understanding to why Sara Lee decided to shut down Bil Mar's slaughtering facilities. Second, the impact of Sara Lee's actions on District 7's local economy is assessed. The effect on Bil Mar employees, turkey growers, and the local businesses that provide inputs to the slaughtering activity, is analyzed. Also, businesses that rely on those affected by Bil Mar for patronage will be impacted. The impact analysis addresses these effects and provides a better understanding of the ramifications of Sara Lee's decision.

Figure 3: Michigan Agricultural District



CHAPTER 2: STRATEGIC ANALYSIS OF THE SARA LEE CORPORATION

In order to understand the strategic decision of Sara Lee to eliminate slaughter at the Bil Mar facility, it is important that the company's current strategy be analyzed and evaluated. Having a clear assessment of Sara Lee's internal strengths and weaknesses and its external opportunities and threats will ensure a better understanding of its actions.

2.1 COMPANY DESCRIPTION³

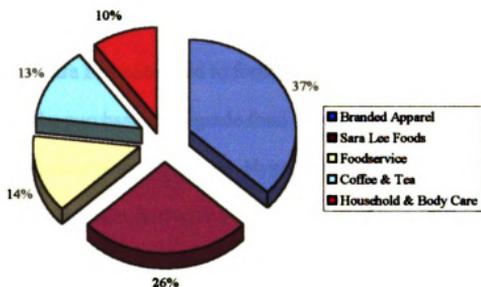
Sara Lee is a global manufacturer and marketer of a wide range of brand-name consumer packaged products with operations in more than 40 countries. It is headquartered in Chicago, Illinois and employs 138,000 people worldwide. Some of Sara Lee's brands include *Ball Park*, *Bryan*, *Hillshire Farms*, *Hanes*, *Playtex*, *Kiwi*, and *Radox*.

Sara Lee's management philosophy is considered a great attribute, one that defines the company. Its philosophy is a commitment to decentralized management, a philosophy well suited to effectively carry out the company's mission: "to build leadership brands in consumer packaged goods markets around the world. Our primary purpose is to create long-term stockholder value." With the mission of brand leadership and creating stockholder value, Sara Lee has managed to deliver record sales and profits over the past 20 years by setting aggressive goals and empowering management to achieve them. Annual revenues of \$20 billion and operating income of \$1.9 billion are divided into five lines of businesses, as shown in Figures 4 & 5: Sara Lee Foods, Coffee

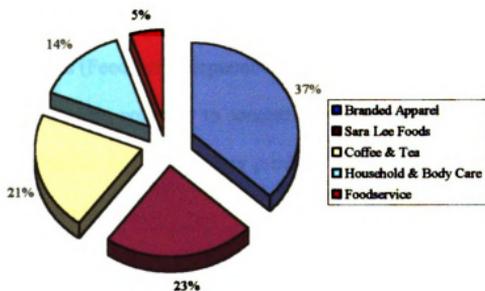
³Information derived from Sara Lee's web page; www.saralee.com/overview/index.html

and Tea, Household and Body Care, Foodservice, and Branded Apparel. With the concentration of this study being the turkey industry and Bil Mar, this strategic analysis will target the Packaged Foods sector of Sara Lee Foods' business.

**Figure 4: Breakdown of Sara Lee's Line of Businesses
1999 Sales (\$20.0 billion)**



**Figure 5: Breakdown of Sara Lee's Line of Businesses
1999 Operating Income (\$1.9 billion)**



Sara Lee's initial penetration into the packaged meats business sector came about with the purchase of E. Kahn's Sons Company, its first meat company, in 1966. Two years later, Bryan Foods, Inc. was acquired. In 1971, the company made a significant addition to its packaged meats sector with the acquisition of Hillshire Farm and Rudy's Farm. Standard Meat Company, a meat product processor, was purchased in 1982 and Jimmy Dean Meats, which manufactures various meats, foods and leather products, in 1984. It was not until 1987 that a major producer of turkey-based products, Bil Mar Foods, was acquired. Sara Lee continued to fortify its position in the packaged meats market in 1989 with the purchase of Hygrade food products and in 1997 with the purchase of a French meats company, Aoste. Hygrade manufactures hot dogs and luncheon meats, bacon and ham (includes the *Ball Park*, *Grillmaster*, and *Hygrade* hot dog brands).

However, during 1998, Sara Lee announced that it would implement a de-verticalization strategy that would include moving out of manufacturing operations and becoming a virtual firm. This strategy would allow Sara Lee to concentrate on its mission of building brand leadership through developing and marketing brands. The de-verticalization process would also include the divestment of certain businesses of less than \$1 billion in revenues (Feedstuffs, September 1997). Sara Lee's decision to outsource slaughter permits the company to concentrate more resources around developing new, value-added meat and poultry products and merchandising existing, well-established brand names.

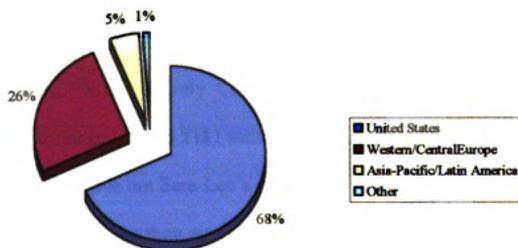
2.2 SARA LEE'S BUSINESS SECTORS

As mentioned earlier, Sara Lee has five lines of businesses. These businesses are described and their respective performances over the years are outlined below:

2.2.1 Sara Lee Foods⁶

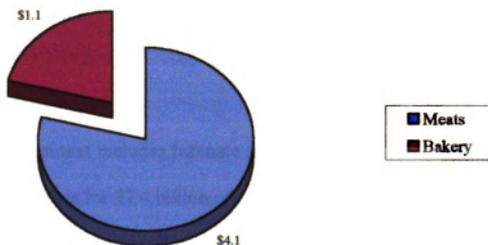
Sara Lee Foods business includes both packaged meats and bakery sectors which together account for \$5.2 billion of Sara Lee's sales in 1999. This business has made Sara Lee one of the largest packaged meats company in the world and the number one company in the frozen baked goods markets of the United States, Australia and the United Kingdom. Its acquisition of the Brossard Bakery business in France and Italy gives Sara Lee a significant presence in Europe. Sara Lee's international market penetration has allowed it to become the leading company in both sectors. Breakdowns of its sales by geographic region and core category are presented in Figures 6 and 7.

Figure 6: Sara Lee Foods - 1999 Worldwide Sales (dollar share)



⁶ Information obtained from Sara Lee's web page; www.saralee.com/brands/index.html

Figure 7: Sara Lee Foods - 1999 Sales (in billion \$)



The brands included in packaged meats include *Ball Park*, *Bil Mar*, *Hillshire Farm*, *Imperial*, *Jimmy Dean*, and *Kahn's*. Bakery brands include *Brossard*, *Nutrine*, *Sara Lee*, and *Savane*. Continuing on its global initiative, in 1998, Sara Lee expanded its packaged meats business in Mexico by acquiring Zwanenberg, a marketer of hot dogs, ham, and other packaged meats while continuing to develop and promote *Jimmy Dean* breakfast sausages, mini-cheeseburgers and corn dogs in Japan.

Sara Lee Foods business has experienced consistent growth for the past six years in sales and net income. Compounded growth rate from 1994 to 1999 in sales and income are 5.3% and 8.9% respectively. Capital expenditures have also consistently increased from \$99 million in 1994 to \$181 million in 1999. This may seem contradictory to its outsourcing objective but Sara Lee's decision of outsourcing involves inputs to its processing sector rather than manufacturing. This allows the company to continue aggressive acquisition and expansion strategies while remaining consistent with its

outsourcing objective. The most impressive growth is Sara Lee Foods' return on investment. Return on average net operating assets rose to 91.1% in 1999 from 45.7% in 1994.

2.2.2 Branded Apparel

This line of business includes Intimate Apparel and Accessories, Knit Products and Legwear and accounts for \$7.4 billion of Sara Lee's sales in 1999. Through strengthening its brands *Hanes Her Way*, *Just My Size*, *Playtex*, and *Wondabra*, Sara Lee has increased worldwide sales and profits in fiscal year 1998. Sara Lee's *Playtex* brand continued to be the leader in the bra category through product innovation and consumer satisfaction.

In its Accessories category, Sara Lee's *Coach* brand is a major player in the upscale, fashion-forward leather goods market. The brand has introduced a variety of newly developed products, which included its first mixed-materials introduction, the *Neo Collection*, which featured customized lightweight nylon fabric trimmed in glove leather. Future strategy involves continuing to be innovative in designing and introducing new products to the market. Current products in the pipeline include new business cases, the first *Coach* travel collection and a collection of *Coach* furniture.

Sara Lee's Legwear is the U.S. leader in sheer hosiery with *Hanes*, *L'eggs*, *Donna Karan* and *DKNY* brands. The company is also the U.S. leader in the sock market.

2.2.3 Foodservice

Sara Lee's foodservice division, PYA/Monarch, is the leading foodservice distributor in the southeastern United States and the nation's fourth largest full-line foodservice company. Foodservice was responsible for \$2.8 billion in sales in 1999. The division's strategy is low-cost production, geographic expansion and increased branded product offerings.

The company distributes dry, refrigerated and frozen foods, paper supplies and foodservice equipment to institutional customers and restaurants. Its current customer base is 50,000. In 1998, PYA/Monarch acquired Tennessee-based Kesterson Companies and expanded its warehouses to allow it to respond quickly and cost-effectively.

The company's brands include the 145-year-old *Monarch* brand, and the sub-brand *Monarca*, which markets ethnic foods. Additions in 1998 include *Perfecta* premium meats and seafood and in 1999 PYA/Monarch launched *Mountain Creek* healthful beverages and *Halton Farms* salads and deli items.

2.2.4 Coffee & Tea

Sara Lee's coffee and tea sector leads the \$15 billion European roasted coffee market with brands that include *Douwe Egberts*, *Maison du Café*, *Marcilla* and *Merrild*. Its contribution to Sara Lee's sales in 1999 was \$2.6 billion. Its domination is unparalleled as *Douwe Egberts* enjoys a market share five times that of its closest competitor in the Netherlands. Sara Lee's *Pickwick* tea brand holds leading positions in six European countries. Sara Lee also leads in institutional and other out-of-home coffee

markets through *Douwe Egberts* Coffee Systems in Europe and *Superior* Coffee in the United States.

In 1998, Sara Lee entered the South American market with the acquisition of the Brazilian coffee company *Café do Ponto*. This acquisition gives Sara Lee the number-two position in Brazil.

2.2.5 Household & Body Care

This sector is Sara Lee's most global line of business and includes branded household and body care products as well as its Direct Selling division which markets products in more than 15 countries through 750,000 direct selling representatives. Its sales in 1999 were \$2 billion.

The company's most global brand, *Kiwi*, is the world's top shoe care brand and is marketed in 122 countries. The company's strategy involves a relaunch of the *Kiwi* brand to boost geographical expansion and strengthen positions in mature markets.

Sara Lee leads the body care category in Europe with *Sanex*, *Duschdas*, *Badebas*, *Radox*, *Delial* and other brands. *Duschdas* is the number one brand in Germany and was extended to Hungary while *Radox* remains a significant brand in the United Kingdom.

The direct selling aspect of the business distributes cosmetics, fragrances, jewelry, toiletries and apparel products directly to consumers' doors. House of Fuller is Mexico's number-two direct seller with more than 235,000 sales representatives. House of Fuller also operates in Argentina and Uruguay.

2.3 SWOT ANALYSIS

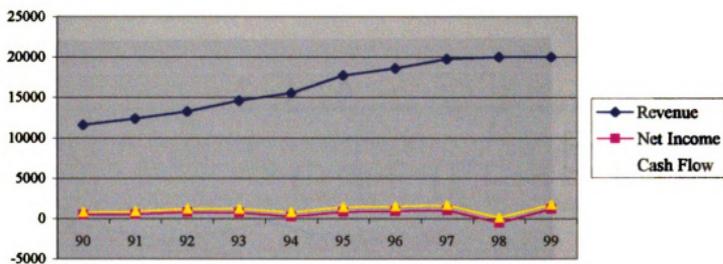
2.3.1 Financial Resources'

By being the leader in various business sectors and having powerful brands, Sara Lee has generated the financial resources necessary to be successful. It is this financial strength that has allowed the company to pursue an aggressive acquisition strategy over the past three decades and expand into various lines of businesses while maintaining its commitment to its vision of creating long-term stockholder value. Sara Lee's financial resources will be analyzed based on the following: growth trends, financial health, profitability, market multipliers, and intrinsic value.

In analyzing a firms' growth trends, its revenues, net income, and cash flow are observed to determine how well the firm is translating profits into earnings, which is necessary for growth. Compared to the diversified food industry average, Sara Lee is growing faster than its competitors. Its 10-year revenue growth rate is above average at 6.43% compared to the industry. Net income over the years has been comparable to its industry competitors, but the company's recent plummet into negative figures for 1998 due to a hot dog and deli meat recall, has put it at a disadvantage when compared to other companies. Its growth trend compared to the competition could be misleading. The same trend is exhibited in Sara Lee's cash flow. The cost associated with conducting the product recall of 1998 has significantly affected the company's cash flow growth percentage.

However, for each year since 1990 with the exception of 1998, Sara Lee has shown the second best cash flow growth among its competitors. Even in 1994, when the firm initiated a restructuring charge, its cash flow was among the top diversified foods companies. Sara Lee's ten-year trend in these categories is found below in Figure 8.

Figure 8: Sara Lee's Historical Revenue, Net Income, and Cash Flow (in million \$)

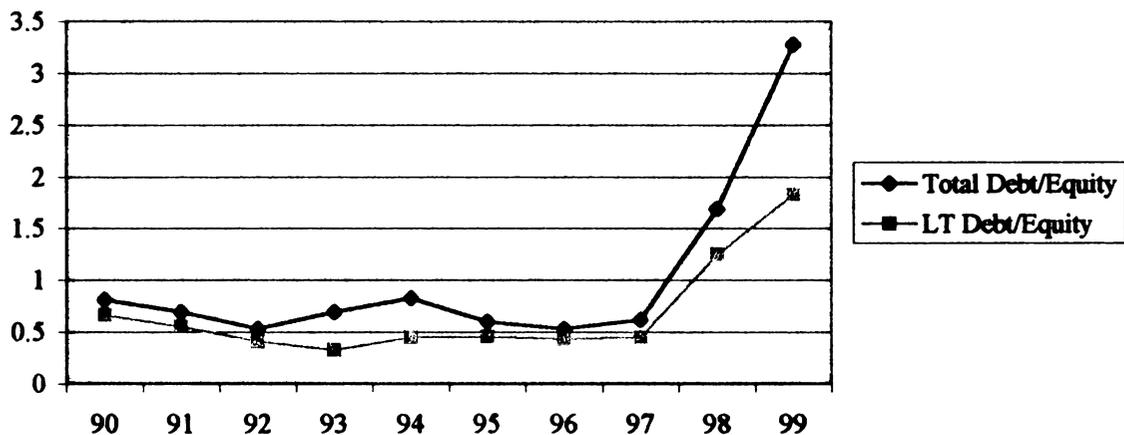


Looking at Sara Lee's financial health entails assessing its long-term and total debt/equity ratio. This process compares the company's debt to its assets minus its liabilities to reveal how much debt is cutting into the bottom line. The higher a firm's debt/equity ratio, the more important it is to have a positive earnings and steady cash flow. At some point, the company must pay off its debt or interest payments will deplete its finances. Over the years Sara Lee has been able to keep its equity (total value of stock) above debt thus ensuring that the company is able to pay its debt and minimize the amount spent on interest. However, the fiscal years 1998 and 1999 have exhibited large total debt/equity increases, which imply that the company has incurred a significant increase in debt. In analyzing the balance sheets for the past four years, the company's

⁷ Figures & industry averages; www.excite.quicken.com/investments/quotes/?symbol=sle

current liabilities have increased 28.2% from \$4.64 million in 1996 to \$5.95 million in 1999 while stockholder's equity has decreased from \$3.67 million in 1996 to \$1.25 million in 1999. Compared to other companies in the industry, Sara Lee's debt/equity is typical with the exception of a few firms. Sara Lee's total and long-term debt/equity ratios for the past ten years are presented below in Figure 9.

Figure 9: Sara Lee's Historical Total and Long-Term Debt/Equity

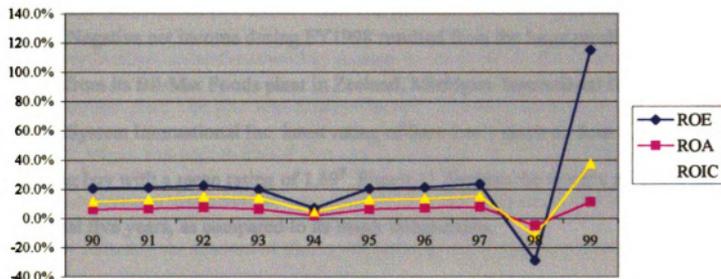


Profitability is measured by looking at return on equity (ROE), return on assets (ROA), and return on invested capital (ROIC). These ratios tell us how successfully Sara Lee is converting shareholders' equity, assets, and invested capital into net earnings. Return on assets compares income with total assets and can be interpreted in two ways. First, it measures management's ability and efficiency in using the firm's assets to generate profits. Second, it reports the total return accruing to all providers of debt and equity. Return on equity measures the return on stockholder's equity and excludes debt. Return on invested capital measures the return to external debt and equity instead of total assets. ROIC measures profitability relative to all capital providers.

Sara Lee's ROE ten-year average has been less than its competition through the years. This is a result of sharp declines in the firm's ROE suffered during FY1994 and FY1998 due to charges taken by the company for restructuring and recalls, respectively. In 1994, Sara Lee took a charge of \$495 million for restructuring (Wall Street Journal). Its vision was to invest in brands to increase share (Feedstuffs, October 1994). However, its one-year ROE has significantly improved from -28.8% in 1998 to 115.2% in 1999 which may indicate that either Sara Lee has a lot of debt or is highly leveraged.

Likewise, Sara Lee's ROA has historically lagged behind its competitors. Although its ROA has maintained a steady trend, it has also suffered during the 1994 and 1998 fiscal years. As seen in the firm's ROE, its ROA also rebounded to be among the best in the diversified foods industry. The same trends are experienced by the company's ROIC. Its ten-year ROE, ROA, and ROIC is in Figure 10 below.

Figure 10: Sara Lee's Historical ROE, ROA, and ROIC



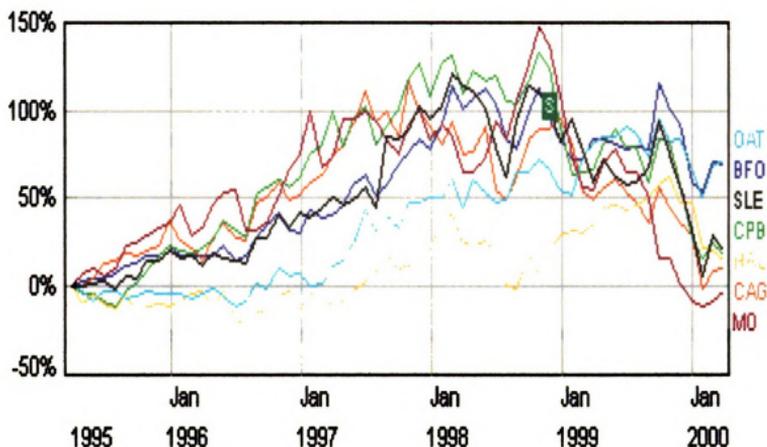
Financial Resources Strengths

Probably the greatest evidence of Sara Lee's financial vigor is the assertive nature exhibited in their acquisitions. As demonstrated previously in descriptions of the firm's lines of businesses, there have been significant acquisitions and expansions in each of the firm's business sectors. This aggressive activity, however, has slowed somewhat in the past two years as Sara Lee implements its spin off strategy. Its ability to implement such a strategy also illustrates Sara Lee's financial prowess, its ability to generate cash flow for repaying debt, pursuing brand development and acquiring businesses.

Because of Sara Lee's aggressive acquisition strategy, it has, as implied earlier, become highly leveraged, as shown by a total debt/equity ratio of 3.28. Although it may imply the contrary, this is not a weakness. Their ability to generate cash flows through spinning off less profitable businesses offsets this leverage situation and allows the firm to maintain its daily production processes and aggressive acquisition strategy. Net income for FY1999 increased to \$1,191 million from a disparaging -\$523 million in FY1998. Negative net income during FY1998 resulted from the large recall of meat products from its Bil-Mar Foods plant in Zeeland, Michigan. Institutional Brokers Estimate System International Inc. latest rating of Sara Lee's stock on June 6, 2000 had it as a strong buy with a mean rating of 1.89⁸. Figure 11 displays the stock's performance for the past five years, as compared to its major competitors.

⁸ 1=Strong Buy, 5=Sell

Figure 11: Stock Comparisons between Sara Lee and its Competitors (1995-2000)



SOURCE: www.excite.quicken.com/investments/quotes/?symbol=sle

OAT= Quaker Oats Company, BFO= Bestfoods, SLE= Sara Lee, CPB= Campbell Soup Company, HRL= Hormel Foods, CAG= ConAgra, MO= Philip Morris Companies.

In the third quarter of FY2000, Sara Lee has used cash flow generated from its global de-verticalization and outsourcing strategy to complete the firm's most aggressive stock repurchase plan. The plan was to repurchase \$3 billion of common stock by the end of FY2000, which was accomplished five months ahead of its June 30 deadline. This strategy is a common tactic used by corporations to improve its earnings per share (EPS) reports. By reducing the amount of shares outstanding, a firm can increase its EPS without even increasing earnings. With Sara Lee's reduced common stock outstanding, and increased earnings, its EPS is favorable and stockholders are pleased. Additional cash flow was also used to make a cash offer to acquire U.K. apparel manufacturer and

marketer, Courtaulds Textiles, which will significantly strengthen Sara Lee's European apparel positions.

Another significant strength of Sara Lee is its revenue growth. As represented earlier in Figure 9, Sara Lee has experienced a steady revenue growth trend, one that is above the industry's average. Its five-year revenue growth of 3.2% is greater than the industry's of 2.21%.

Financial Resources Weaknesses

Sara Lee prides itself on its financial capabilities. Upon analyzing Sara Lee's financial performance, it is evident that it is not living up to its mission of creating long-term stockholder equity as compared to its competitors. The firm's return on equity ratio indicates how well it has turned stockholder's equity into profits. Although its value for FY1999 of 115.2% is higher than most of its major competitors, its average for the past ten years has been lower than the industry. This trend is also consistent with the firm's other profitability ratios. Its ROA and ROIC has also trailed its competitors for the past ten years. Its ROA and ROIC average for these years are 5.7% and 12.3% respectively compared to the industry average of 7.5% and 15%.

2.3.2 Operations/Production Resources

Operations/Production Resources Strengths

Sara Lee, as a market leader in the packaged meats, has incorporated a variety of ways to manufacture and market its products. With expansion through acquisitions in its more profitable sectors, the firm has built up its fixed assets in the form of numerous

production plants worldwide. Many of its acquisitions are international as Sara Lee attempts to expand its global presence. For example, in April 1999, Sara Lee revealed intentions to invest \$45 million in new technology and expansion at its Puerto Rican plants over the next 3 years, adding 2,000 jobs (Caribbean UPDATE). In 1996, the company reopened its plant in Modesto, California to produce 200,000 pounds of dry sausage a week (Modesto Bee). The capacity of Sara Lee's plants is sufficient to serve its consumers and its outsourcing strategy assists in meeting these demands in an efficient manner. Partnering with several firms for logistics and manufacturing activities attains this efficiency.

In October 1998, Sara Lee forged an agreement with Cargill to supply a major part of its turkey breast meat requirements for its Bil Mar Foods division (Milling & Baking News). As a result, Bil Mar did not renew its turkey grower contracts and shut down slaughter capacity at its Michigan plant. Other outsourcing tactics included a contract between Sara Lee's Jimmy Dean Foods and AmeriCold, a logistics company that provides cold storage and food distribution services. It is through Sara Lee's mix of outsourcing strategies and production capabilities that it is able to successfully satisfy its customers' demand in the most effective and efficient manner.

Operations/Production Resources Weaknesses

The greatest weakness that has plagued Sara Lee's operation and production capabilities has been food safety at its meat plants. Its safety and hygienic practices recently came into question in 1997 and 1998 when it voluntarily recalled hot dogs and packaged meats due to the outbreak of a rare bacterium called *Listeria monocytogenes*.

Hygrade Foods Products recalled 91,500 packages of fat-free *Ball Park Franks* in 1997 (USA Today). Again in 1998, Sara Lee recalled various hot dogs and deli meat products that could possibly be carrying *Listeria*, a potentially deadly microbe. It is this weakness that has manifested itself in other resources and caused problems. For example, it is the charge of \$50-70 million associated with the outbreak that caused the disparaging net income for Sara Lee in 1998. The recall also affected Sara Lee's stock price, which fell at the beginning of 1999 by 5 points from \$30 per share to \$25 per share (Chicago Tribune, January 1999). In addition, the company's brand image and reputation has been somewhat tarnished by the negative attention and lawsuits the recall has brought.

To attack the food safety issue, Sara Lee did more than voluntarily recall its hot dog products. The company also improved its food safety techniques at the Bil Mar facility by adopting a new "surface thermal processing" technology to better eliminate bacteria in packaged hot dogs and deli meats (Chicago Tribune, February 1999). Further, Sara Lee announced in April 1999 that it was bringing one of the nation's top scientists in food safety and technology into the private sector. The company named food safety expert Ann Marie McNamara, Ph.D., as its Vice President of food safety and technology (Detroit Free Press, April 1999).

2.3.3 Marketing Resources

Marketing Resources Strengths

Sara Lee's decision to concentrate on its brands is evidence that its marketing resources are important to the company's success. The company's brands are some of the

most recognized worldwide and it is this recognition coupled with quality that allows Sara Lee to gain and maintain market share over its competitors.

Sara Lee maintains majority share in its packaged meats industry through quality brands and the introduction of innovative products that meet consumer demand. In 1995, Sara Lee's subsidiaries introduced a number of fat-free food products to meet its customers' demand for healthier products. Bil Mar Foods' *Mr. Turkey* brand introduced Mr. Turkey Rotisserie Flavor 100% Fat Free Turkey Breast Lunchmeat (Lookout-Foods) while Hillshire Farm & Kahn's launched its own fat-free hot dog under the *Kahn's* brand (Food & Beverage Marketing, July 1995). Other healthy products introduced in later years included a 75% reduced fat pepperoni from Gallo Salame (Food & Beverage Marketing, January 1997) and a 95% fat free Italian style salame made from extra-lean pork and beef marketed under the same brand name (Food & Beverage Marketing, December 1997).

Other successful new products introduced by Sara Lee included bagel sandwiches in sausage & cheese, ham & swiss, and egg & cheese varieties under the *Jimmy Dean* brand (Lookout-Foods, July 1995). Hygrade Food Products Corp. introduced its *Ball Park Singles* Individually Wrapped Hot Dogs. A \$13 million marketing campaign featuring basketball player Michael Jordan backed this launch (Lookout-Foods, August 1998). Another innovative product introduction was that of *Frank Fries*, which uses hot dogs coated in corn meal or other batter and then deep-fried (Progressive Grocer).

As a marketing strategy to adopt a more modern look, Sara Lee replaced the institutional-looking block-type lettering in teal and gray with red cursive on its logo used on Sara Lee cakes and deli meats (Chicago Tribune, October 1998). In addition to

product introduction, market knowledge, and strong brands, Sara Lee also dedicates itself to ensure sufficient advertising promotion for its products. It was among leading diversified foods firms in terms of advertising expenditures in the United States with \$609 million in 1998 versus \$523.5 million in 1997 (Advertising Age).

A concern of any megabrand company is maintaining a good brand image. The operation/production problem that caused a Listeria outbreak and the subsequent meat recall has created a snowball effect and has consequently impacted Sara Lee's marketing operation. However, despite the serious problem posed by the outbreak, consumers have continued to purchase Sara Lee meat products as represented by the sector's sales of \$4.1 billion in FY1999. Sara Lee has made a commitment to significantly improve its facilities to address its food safety problem and the concerns of its customers. In addition to investing in state-of-the-art technology, it has also established a \$1 million food safety research fund at the Center for Food and Nutrition Policy at Georgetown University. It is this commitment coupled with the strong relationship and brand loyalty of its customers in the face of disaster that embodies the marketing strength of Sara Lee and its ability to satisfy its customers with its products and maintain these customers during hard times.

2.3.4 Management/Leadership Resources

Management/Leadership Resources Strengths

A contribution to Sara Lee's great success as a leading firm in the packaged meats industry has been its management team. In all of its business lines, Sara Lee has implemented aggressive strategies in the way of expansion, brand management, and new product introduction. Its intensive acquisition initiative has pushed it to the top of many

of its businesses and has opened doors in the international markets. The decisions of its management to reconstruct its overall strategy and concentrate on building its brands has allowed the company to repay large portions of its debt and helped it to improve and strengthen the firm's financial performance. In addition, it has allowed Sara Lee to reinforce its core competency in brand management and provided it with the financial and operational flexibility to effectively compete in today's ever-changing market.

Additional evidence of the firm's management prowess is its ability to effectively translate market information and the demographics of its consumers to introduce products to meet changing consumer preferences. The introduction and strategic positioning of several health-oriented and time-convenient products attest to this ability. In 1995, Sara Lee opened up several fresh sandwich shops under their name in a partnership with Kroger (Supermarket News) while introducing low-fat products such as pepperoni, salami, and hot dog and time-saving products such as hot dog singles, bagel sandwiches, and *Frank Fries*.

As stated in earlier analysis, Sara Lee's ROE and ROA has historically trailed its competitors. Like other aspects of its performance, the recalls in 1994 and 1998 have affected the firm tremendously. However, it is the decisions of management that have allowed Sara Lee to rebound significantly from a -28.8% ROE and -4.8% ROA in 1998 to 115.2% ROE and 11.3 ROA in 1999.

2.3.5 Opportunities

- ***International Markets***

The diversified foods industry in which Sara Lee operates is a mature one with limited potential for domestic market growth especially in light of the fierce competition

between the major players. It is therefore necessary that these players continue to look for ways outside of the domestic market to increase their market base and ultimately increase revenues and profits.

International markets have and continue to provide that opportunity for many firms. Sara Lee has begun to penetrate some of these markets in Europe and Latin America. The opportunity exists for further market penetration pending the NAFTA and Uruguay Round trade agreements. The NAFTA consideration to include more Latin American and Caribbean countries could help to provide the needed market.

- ***Internet Sales***

With the advance in computer technology and the obvious advantages of e-commerce, providing products online for purchase is a great opportunity. Sara Lee currently makes available online *Hanes* products for its consumers. Priceline.com, a company that makes available airline tickets online, has an interesting approach. It allows customers to name its price for tickets and within an hour, responds with its decision on whether or not it can accept the bid. This company now makes available the same service for grocery shopping. Its customers make bids on the groceries they want and then arrange for customers to pick the groceries up at the supermarket. This creates the perfect opportunity for Sara Lee to forge an agreement to advertise its food products on Priceline's web site at prices attractive to its consumers. The offering of coupons online is also an attractive opportunity. Currently, Sara Lee also offers recipes online that incorporates its products.

To reiterate the growing trend of e-commerce and the increasing number of companies taking advantage of this opportunity, a newswire in Minneapolis on April 11,

2000 released an article stating that the world's leading meat and poultry processors (IBP, Cargill, Smithfield Foods, Tyson Foods, Gold Kist) have signed a letter of intent to create an on-line, business-to-business marketplace for meat and poultry products, service, and information. It will be a neutral web-based exchange that will provide a single, convenient place for buyers and sellers of meat and poultry products to connect with each other (PRNewswire).

- *Low hog and turkey prices-lower costs*

The drop in prices for turkeys and hogs, major inputs to the production of Sara Lee's meat products, presents a great opportunity for it to reduce costs and improve profits. This opportunity plays into the company's strategic objective of maximizing its resources in businesses that provide the greatest returns.

- *Become the leader in food safety research, technology and education*

In light of its recent misfortunes regarding food safety, Sara Lee can benefit significantly by becoming the industry leader in food safety research, technology and education. To this end, it has already committed more than \$100 million for state-of-the-art food safety programs across its meats businesses. Sara Lee has also established standards and protocols for production and testing that exceed federal and industry guidelines, enhanced employee training, implemented new product labeling, and appointed a respected food scientist from the U.S. Department of Agriculture as its new Vice President of food safety and technology.

2.3.6 Threats

- ***Loss of Market share due to Listeria outbreak-hot dog recalls***

The greatest potential threat comes from Sara Lee's recent issue of food safety in its meat processing plants. It is reported that the Listeria outbreak of 1998 has been responsible for 100 illnesses, 15 adult deaths and six miscarriages or stillbirths in nearly a dozen states (Detroit Free Press, April 1999). The implications for such a disaster on Sara Lee's future sales and rapport with consumers are great. Although sales rebounded somewhat in 1999, it is still uncertain how consumers will react to news regarding the numerous lawsuits filed against Sara Lee. The potential downside could include loss of customers and market share to competitors.

- ***Drop in Stock price due to recalls***

In addition, Sara Lee's stock has already felt the effects of the hot dog and deli meat recall as seen by its drop in stock price in 1999. This trend could very well continue as lawsuits continue to play out. This could hurt the company considerably since it is Sara Lee's mission to increase stockholder's wealth.

- ***Government Regulation***

Another possible threat is that of government regulation on Sara Lee's operations. Although Sara Lee has taken steps to correct its food safety problem, pending its lawsuits, the government could pass down additional regulations. Currently, the U.S. Attorney's Office and the Office of the Inspector General of the U.S. Department of Agriculture have become part of the probes into the Bil Mar Foods listeriosis outbreak (Feedstuffs, April 1999). The repercussions of government involvement could prove to be substantial and could have a great effect on Sara Lee's bottom line.

In addition, concerns have been raised as to the hiring of federal regulator, Ann Marie McNamara. “It is unsettling that someone at this level at USDA would do this,” said Heather Klinkhamer, Program Director for Safe Tables Our Priority, a food safety consumer group. “It makes you wonder how objective she was in her duties, when she’s negotiating to be an employee at this company” (Detroit Free Press, April 1999). Federal law places a restriction of one to five years on government officials from working for companies it has regulated. At the least, McNamara could be restricted to work for a period of time or a more serious action could be taken preventing her from working for Sara Lee entirely.

- *Outsourcing- potential of supplier to enter market*

Sara Lee’s new strategy calls for getting out of manufacturing activities and outsourcing its production of turkey, chicken and beef as inputs to its processing sector. The potential problem with this is that it gives suppliers some bargaining power over Sara Lee and it could also give the supplier some insight to how it differentiates its products to exude the quality that its consumers depend on and demand. This knowledge may prompt the supplier to consider entering the market as a competitor rather than Sara Lee’s supplier. This threat is enhanced when insight into Sara Lee’s competitive advantage is revealed.

2.4 COMPETITIVE ANALYSIS⁹

The following competitive analysis includes the largest food companies used to make comparisons in evaluating Sara Lee’s financial resources.

2.4.1 Bestfoods

Bestfoods (formerly CPC International Inc.) and its consolidated subsidiaries is a worldwide group of businesses, principally engaged in three major industry segments: consumer foods, baking and corn refining.

Bestfoods is among the largest U.S. food companies, with 1999 sales of \$8.6 billion. It has operations in more than 60 countries in North America, Europe, Latin America, Asia, the Mideast, and Africa, and is one of the most international of the United States food companies in terms of percentage of sales and earnings coming from outside the United States. In 1999, about 60% of its sales came from international operations.

Bestfoods markets a broad array of leading consumer foods brands, including Knorr soups, sauces, bouillons and related products, *Hellmann's* and *Bestfoods* dressings, *Mazola* corn and canola oils, *Skippy* peanut butter, *Mueller's* pasta products, *Karo* syrups, *Argo* and *Maizena* corn starches, *Alsa* and *Ambrosia* desserts, *Pfanni* potato products, *Lesieur* dressings, *Pot Noodle* instant hot snacks, *Telma* products, *Bovril* bouillons, *Marmite* spread, *Santa Rosa* jams, and many others.

Bestfoods is the largest fresh premium baker in the U.S. Its brands include *Entenmann's* sweet baked goods, *Thomas' English Muffins*, *Oroweat*, *Arnold*, and *Freihofer's* breads; *Boboli* Italian pizza crusts, and *Sahara* pita breads. The company's products are sold in 110 countries through retail outlets and its strong worldwide foodservice business, which operates under the name *Caterplan* outside the United States. However, recent reports have Bestfoods entertaining bids for purchase from Unilever, one of the worlds largest firms with business in food and beverages, ice cream

⁹ Company profiles taken from www.activemedia-guide.com/food1.htm

and frozen foods, home and personal care. Its latest offer was for \$20.3 billion in cash (\$73 per share). This strategy is similar to the aggressive expansion strategy of Sara Lee by merging (New York Times, June 2000).

2.4.2 Campbell Soup Company

Campbell Soup Company is a global manufacturer and marketer of high quality, branded convenience food products. In September 1997, the company announced its intention to spin off certain specialty foods businesses to its shareowners as an independent publicly held company. The new company will include *Swanson* frozen foods, *Vlasic* pickles, and certain European and Argentine businesses, including *Swift-Armour Sociedad Anomina Argentina*. During 1997, the company acquired *Erasco GmbH*, Germany's leading soup company. The company also divested its *Marie's* dressing business in the United States and *Beeck-Feinkost, GmbH*, a German chilled foods business. As part of its ongoing review of all vertically integrated operations, the company sold its beef ranches in Argentina and is in the process of divesting its poultry operations in the United States. This action follows the similar divesting strategy of Sara Lee and after reporting disappointing earnings in the first quarter of FY2000, the company announced that it would refocus its attention on its brands (Philadelphia Inquirer, June 2000). This refocus will involve increasing its advertising budget which was \$184 million in 1999 (Advertising Age, May 2000)

The company considers itself to be engaged in a single industry segment, the manufacture of prepared convenience foods. The company operates in three core divisions: Soup and Sauces, Biscuits and Confectionery, and Foodservice. Soup and

Sauces includes the worldwide soup businesses, *Prego* Spaghetti sauce, *Franco-American* pasta, *Pace* Mexican foods, *Swanson* broths, and the *V8* beverage business. Biscuits and Confectionery includes the *Pepperidge Farm*, *Godiva*, *Arnotts Limited*, and *Delacre* businesses. Foodservice consists of products distributed to the food service and home meal replacement markets and includes *Campbell's Restaurant Soups*, *Pace Tabletop* picante and *Campbell's Specialty Kitchens* entrees. Businesses comprising a newly developed fourth division consist of *Swanson* frozen foods, *Vlasic* pickles, and other specialty foods businesses.

2.4.3 ConAgra Incorporated

ConAgra is one of the largest food processors in the World. ConAgra's businesses are classified into three industry segments: Grocery & Diversified Products, Refrigerated Foods and Food Inputs & Ingredients. ConAgra is a diversified food company that operates across the food chain, from basic agricultural inputs to production and sale of branded consumer products. As a result, ConAgra uses many different raw materials, the bulk of which are commodities. This approach of owning and manufacturing everything is on the opposite end of the spectrum from Sara Lee's approach of outsourcing.

ConAgra's businesses operate across the food chain. These businesses include crop protection chemicals, fertilizer & seed distribution, worldwide commodity distribution & merchandising, oat & dry corn milling, beef & pork products, branded chicken & turkey products, branded processed meats, cheeses & refrigerated dessert toppings, seafood products, private label consumer products, branded shelf-stable foods, and branded frozen foods.

ConAgra's poultry businesses are leading producers and marketers of chicken and turkey products for retail, foodservice and export markets. These poultry brands include *Butterball, Banquet, Country Pride, Country Skillet* and *To-Ricos*.

ConAgra's processed meat brands include *Butterball, Healthy Choice, Eckrich, Swift Premium, Armour, Cook's, Hebrew National, Decker, Longmont, Brown 'N Serve, Golden Star, Webber's* and *National Deli*. Products include hot dogs, bacon, hams, sausages, cold cuts, turkey products and kosher products. Branded cheese products include *Healthy Choice* fat-free cheese, *Treasure Cave* blue cheese, *County Line* natural cheeses and *Pauly* cheeses for foodservice markets. Its cheese company, *Beatrice Cheese Company*, also produces and markets *Reddi-Wip* dessert toppings.

2.4.4 Hormel Foods

Hormel is primarily engaged in the production of a variety of meat and food products and the marketing of those products throughout the United States. Although pork remains the major raw material for Hormel products, the company has emphasized for several years the manufacture and distribution of branded, consumer packaged items rather than the commodity fresh meat business. New product introductions in the past few years have emphasized a variety of branded turkey products produced and sold under the *Jennie-O* label. There has also been several new products introduced in the fast growing ethnic food market. Ethnic products include *Chi-Chi's* line of Mexican foods, *House of Tsang* oriental sauces and food products, and Mediterranean food products under the *Marrakesh Express* and *Peloponnese* labels.

In October 1996, Hormel purchased Stagg Foods, Inc., a leading West Coast producer of chili and stew products through an exchange of stock. Stagg Foods is

operated as part of the main Hormel business. Hormel's subsidiaries include Jennie-O Foods Inc., Dubuque Foods Inc., Hormel Foods International Corporation and Vista International Packaging Inc. Jennie-O, a Willmar, Minnesota based turkey processor, markets its products nationwide through its own sales force and brokers.

Hormel markets its products internationally through Hormel Foods International Corporation. Hormel Foods International has been increasing its presence in the international marketplace through joint ventures and placement of personnel in strategic foreign locations. Joint ventures have been established in Mexico, China, and Australia. Hormel International marketing and sales personnel are located in Spain.

2.4.5 Phillip Morris Companies-Kraft Foods

Kraft Foods is the North American food business of Philip Morris Companies Inc. It is headquartered in Northfield, Illinois, and traces its history to three of the most successful food entrepreneurs of the late 19th and early 20th centuries: J.L. Kraft, Oscar Mayer and C.W. Post. Today, Kraft is the largest packaged food company in the U.S. and Canada. Kraft operates through ten business divisions: Beverages & Desserts, Boca Foods, E-Commerce, Maxwell House & Post, Kraft Canada, Kraft Cheese, Kraft Food Services, The New Meals Division, and Oscar Mayer Foods.

Kraft markets more than 70 major brands including: *Kraft* cheeses and dinners, *Oscar Mayer* meats, *Maxwell House* and *Nabob* coffees, *Post* ready-to-eat cereals, *Jell-O* desserts, *Kool-Aid* beverages, *Philadelphia* cream cheeses, *Tombstone* pizza, *Stove Top* stuffing mixes, and *Miracle Whip* salad dressing. It has four brands with more than \$1 billion in annual revenues (*Kraft*, *Oscar Mayer*, *Maxwell House*, *Post*) and another 28

brands with more than \$100 million in annual revenues. Its strategy follows an extensive brand marketing initiative that involved a \$50 million promotional plan in 1999 (Promo, March 1999).

2.4.6 Quaker Oats Company

Quaker Oats Company is a major participant in the competitive packaged food industry in the United States and is a leading manufacturer of hot cereals, pancake mixes, grain-based snacks, cornmeal, hominy grits and value-added rice products. In addition, the company is the second-largest manufacturer of syrups and value-added pasta products and is among the five largest manufacturers of ready-to-eat cereals and dry pasta products. The company competes with a significant number of large and small companies on the basis of price, value, innovation, quality and convenience, among other attributes. Quaker Oats utilizes both its own and broker sales forces and has distribution centers throughout the country, each of which carries an inventory of most of the company's food products. In addition, the company markets a line of over 400 items to the food service market, including *Quaker* hot and ready-to-eat cereals, *Continental* coffee and *Ardmore Farms* single serve frozen fruit juices, a specialty line of custom-blended dry baking mixes, ready-to-bake biscuits and *Burrry* cookies and crackers. Other brands include *Gatorade*, *Rice-A-Roni*, *Aunt Jemima*, *Pasta Roni*, and *Golden Grain-Mission* pasta.

The firms' strategy follows Sara Lee's from the perspective of trimming down its less profitable businesses. In 1999, Quaker Oats undertook a 3-year restructuring program designed to improve its North American production and distribution operations (Milling and Baking News, September 1999).

2.5 STRATEGIC ISSUES SYNTHESIS

What are Sara Lee's core competencies? Key competitive advantages?

- Marketing of brands
- Management-strategy
- Product innovation

Where are Sara Lee's strengths and opportunities reinforced?

- Financial and Marketing resources along with international market opportunity
- Marketing resources along with e-commerce
- Marketing resources used to become the leader in food safety research, technology, and education

Where are Sara Lee's weaknesses and threats reinforced?

- Operating resources along with loss of market share, decrease in stock price & government regulation

What are the critical issues that must be addressed to assure a successful future?

- *How will Sara Lee's new strategy assist them in penetrating international markets?*

It is obvious that Sara Lee's decision to discontinue manufacturing in many of its businesses and outsource was somewhat influenced by its need to continue expansion in international markets. However, it is unsure whether or not the new strategy will be effective in international domains. Research needs to be conducted to determine whether or not the current approach will be effective in the global arena.

- *How will Sara Lee restore the faith in their consumers regarding food safety?*

Although suggestions are made as to what will be done to physically correct deficiencies in the firm's operations regarding food safety, it is a greater challenge to ensure its consumers over time that its products are safe and that Sara Lee is committed to guaranteeing its safety. Making its actions and intentions publicly known will assist in redressing this issue.

- *What will Sara Lee do to help its stock rebound and restore faith in its stockholders, both current and potential?*

In addition to restoring the faith of consumers in its food safety practices, Sara Lee has to do the same for those persons that are currently invested and will invest in the company.

- *How will Sara Lee facilitate the distribution of its product to customers that purchase on-line? How will it deal its wholesalers and retailers?*

Sara Lee, as are many of its competitors, is currently exploring the opportunities of Internet interaction with its consumers in other lines of business. The issue raised here is the relationship with its intermediate customers. In implementing an on-line marketplace, Sara Lee's challenge will be finding suitable distribution for its products. It is unclear, however, the role that its current wholesalers and retailers will play in this process. Currently, these parties are not in the business of delivering products to consumers and in the future, a decision must be made as to whether or not these services will be rendered.

CHAPTER 3: IMPACT ANALYSIS

3.1 RESEARCH METHODS

To analyze the impacts of Bil Mar closing down its slaughter facilities on the local economy of District 7, an input-output analysis is conducted. Input-output analysis is a means of examining businesses-to-businesses and business-to-final consumer relationships capturing all monetary market transactions for consumption in a given time period. Once an input-output analysis is conducted, the resulting mathematical formulae allows one to examine the effects of a change in one or more of the economic activities on an entire economy (impact analysis). Impact analysis is used to assess the change in District 7's overall economic activity as a result of the change in Bil Mar's operation.

There are three types of effects estimated in the impact analysis. These are direct, indirect and induced effects. Direct effects are the changes in the industries to which a final demand change was made. By discontinuing its slaughtering activities, Bil Mar has directly impacted those persons working in the slaughtering plant. This can also be viewed as a loss in demand for live birds and slaughter activities thus making the impact on turkey growers a direct effect.

Indirect effects are the changes in inter-industry purchases as they respond to the new demands of the directly affected industries. All industries and businesses that provided the slaughtering plant with inputs will be included in the indirect effects. For example, if slaughtering capacity is reduced so will the production and sale levels of those companies that provide machine blades and knives to Bil Mar as well as purchases from the company's steel suppliers.

The induced effects reflect changes in spending from households as income increases or decreases due to changes in production. For instance, those households with persons employed at the blade and knife producing company may experience changes in their spending patterns as a result of reduced income. This induced effect is caused by decreased production levels thus impacting additional industries. These additional industries include those from which the impacted households would normally make purchases; the effect could be less income spent on toys, entertainment, or eating out.

The statistical software Micro IMPLAN (IMPact analysis for PLANning) is utilized to carry out the statistical procedure. The USDA Forest Service in cooperation with the Federal Management Agency and the USDI Bureau of Land Management developed IMPLAN to assist the Forest Service in land and resource management planning. The data provided through IMPLAN is taken from the year 1996.

In order to put the potential economic changes in perspective to have a better understanding the impacts of Sara Lee's decision, this study examines two alternative cases:

Case One: Economic analysis of closing the slaughtering floors at Barculo, Michigan on District 7's local economy

This analysis will entail determining how closing down the kill floor will impact the local economy of Michigan's District 7 with respect to employment, output and value added. Understanding the ramifications of Sara Lee's strategic agenda on the local economy will provide a clear picture of the significance of such a strategic move as well

as the consequences and opportunities confronting the turkey producers, input suppliers and District 7's economic community.

The shutting down of kill space resulted in one of two outcomes for a total of 275 slaughter employees. These outcomes are either job loss or change of job description from slaughter to processing. By expanding its processing capacity, Bil Mar created new jobs in processing. It is unclear however, the exact net loss in jobs because it is not possible to determine if slaughter workers are transferred to new processing jobs created from increased processing. To account for this, three alternative scenarios are studied. The first assumes all of the 275 plant employees are rehired for processing, the second assumes that 50% (138 employees) are rehired, and the third scenario assumes that no employees are rehired. As for the turkey growers, in each scenario it is assumed that they are all jobless because of the shut down. The local economy impacted is Michigan's District 7.

Case Two: Economic impact of forming a cooperative to perform slaughter activity on District 7's local economy

One of the possible strategies open to turkey growers is to form a cooperative that will assume the slaughtering tasks strategically discontinued by Bil Mar. Such an analysis provides insight on the amount of economic activity that can be retained from the losses sustained in the previous scenario. It is estimated that 4.1 million turkeys will be grown, processed and boned by the cooperative (Rahn). This translates to approximately 11,233 birds per day, compared to Bil Mar's 20,000 birds before the rate cut. Although the cooperative will not have the capacity of Bil Mar, its existence will help sustain the

livelihood of turkey growers and farmers in other agricultural sectors such as soybean and corn, which provide vital inputs to the turkey growing process.

In retrospect, Bil Mar's decision to discontinue slaughter was a two-step process. First, the decision in 1997 to go from a two-shift to a one-shift operation reduced output from 7.9 million turkeys to 4.3 million turkeys slaughtered. The second step was the decision to shut down the kill floor at Bil Mar and discontinue slaughtering turkeys all together. The Michigan Turkey Producers Cooperative's (MTPC) estimated production of 4.1 million turkeys is comparable to Bil Mar's output immediately before its shut down point and will provide relief for those farmers whose contracts expired or were bought out. The cooperative's corn utilization would equal 1.6% of the State's (4,116,905 bushels) and its soybean meal utilization would equal 2.9% of the State's (1,792,930 bushels) (Rahn). This study analyzes the effects of the second and final step of shutting down the slaughtering facilities on District 7's economy.

3.2 RESULTS¹⁰

In analyzing the scenarios stated, IMPLAN measures the impacts on the basis of employment, value added, and output.

Here, employment includes total wage and salary employees as well as self employed jobs in the region. It includes both full-time and part-time workers and is converted to FTE.

Value added consists of four components: employee compensation, proprietary income, other property type income, and indirect business taxes. Employee compensation is wage and salary payments as well as benefits including health and life insurance,

retirement payments and any other non-cash compensation. It also includes all income to workers paid by employers. This measure is important because it provides a dollar value corresponding to the employment generated or lost in each analysis. It would include any severance packages that slaughter plant workers may receive as well as the lost income and benefits no longer offered to those workers. Also included in this component is lost income for local turkey growers. Proprietary income consists of payments received by self-employed individuals as income. This component is characteristic of many turkey farmers in that they generally own the land they farm and all the materials and inputs needed to grow turkeys. Other property type income is the payments from interest, rents royalties, dividends, and profits. This includes payments to individuals in the form of rents received on properties, royalties from contracts, and dividends paid by corporations. Indirect business taxes consist primarily of excise and sales taxes paid by individuals to businesses. These taxes occur during normal business hours but do not include taxes on profit or income.

Total Industry Output is the value of production by industry for a given time period. It can be measured either by the total value of purchases by intermediate and final consumers, or by intermediate outlays and valued added. Output can also be thought of a value of sales plus or minus inventory.

In order to conduct the scenario analysis, the underlying production function has to be changed so as to avoid double counting because the loss of jobs by turkey growers is considered to be direct and not indirect. Therefore, the coefficient corresponding to the “Poultry and Eggs” sector had to be set to zero in the production function of “Poultry

¹⁰ Definitions are derived from Micro IMPLAN Group

Processing”. This allows for the turkey growers’ impact to be manually inputted as a direct effect and ensures that it is not double counted as an indirect effect in the processing plant’s impact when both are analyzed simultaneously.

The impacts of eliminating the slaughter process from Bil Mar’s operation, considering a direct employment impact of 275 slaughtering employees and 123 turkey growers, are presented below in Tables 3, 4 and 5 below. In analyzing the three scenarios, the lost employment, output and value added of those plant workers would be fully recovered by rehiring the entire 275 employees for boning and packaging. However, as expected, rehiring 50% would salvage only a portion while rehiring 0% will yield the greatest employee deficit. Nevertheless, it is the lost turkey grower jobs, present in each scenario, which will remain unless an alternative is found. The number of growers in the turkey production industry assumed jobless is 123.

Table 3: Effects on District 7 of Bil Mar Foods Rehiring 100% Employees and Turkey Growers Remaining Jobless

TYPE	DIRECT	INDIRECT	INDUCED	TOTAL
Employment	-123.0	-39.5	-17.4	-179.9
Value Added	-\$1,169,272	-\$1,328,516	-\$692,720	-\$3,190,508
Output	-\$8,887,707	-\$2,578,645	-\$1,123,496	-\$12,589,849

Table 4: Effects on District 7 of Bil Mar Foods Rehiring 50% Employees and Turkey Growers Remaining Jobless

TYPE	DIRECT	INDIRECT	INDUCED	TOTAL
Employment	-260.0	-66.0	-83.6	-409.6
Value Added	-\$7,214,808	-\$2,562,373	-\$3,333,546	-\$13,110,727
Output	-\$28,057,675	-\$5,526,692	-\$5,406,548	-\$38,990,915

Table 5: Effects on District 7 of Bil Mar Foods Rehiring 0% Employees and Turkey Growers Remaining Jobless

TYPE	DIRECT	INDIRECT	INDUCED	TOTAL
Employment	-398.0	-92.7	-150.3	-641.0
Value Added	-\$13,304,473	-\$3,805,236	-\$5,993,648	-\$23,103,357
Output	-\$47,367,571	-\$8,496,255	-\$9,720,863	-\$65,584,688

Although the scenario where Bil Mar rehires 50% of its employees helps to soften the blow, it only offers minimal redress to the issue of lost slaughtering jobs. The greater problem of no market outlet for turkey growers still exists. The fact that those turkey growers are without a market for their birds poses a serious threat to southwest Michigan's agriculture. Additionally, although the demand exists for slaughtered turkeys as inputs to Bil Mar's processing function, it is still an issue as to how growers will slaughter their turkeys to meet that demand. In the meantime, Bil Mar is willing to purchase turkey parts out of state.

Kruger Commodities, a processing company located in Allegan County, has also felt the effects of Bil Mar's decision. Kruger Commodities is in the business of

processing inedible turkey products into protein meal for livestock, including turkeys. Bil Mar supplies these byproducts and is responsible for 60% of Kruger Commodities' inputs. According to Vice-President Terry Pfanenstiel, an indirect impact was felt immediately as a result of Bil Mar's decision, as he had to lay-off his entire third shift including three drivers and up to eight factory workers. However, pending the formation of the MTPC, Kruger Commodities will be able to continue its business and be supplied by the cooperative. Most importantly, they will also have the turkey grower market for sale of its feed.

Under value added in all scenarios, those experiencing significant effects of decreased labor income, employee compensation and proprietary income are in the "Poultry and Eggs", "Paperboard Containers & Boxes", "Electric Services", "Wholesale Trade", and "Banking" sectors. Labor income also decreased significantly in "Agricultural, Forestry, Fishery Services" and "Greenhouse and Nursery Products". Through the elimination of grower contracts and slaughtering capacity, a significant amount of employee income is lost under each scenario. These figures for 100%, 50%, and 0% rehire are -\$1,929,731, -\$9,286,357, and -\$16,696,681 respectively. It is this lost income that ultimately results in reduced household spending.

Another significant repercussion of losing turkey growers in the region is the effect on the local soybean processing plant. Zeeland Farm Services supplies turkey growers with soymeal needed for feed, and the loss of demand coming as a result of expired contracts is important to the district. Analyzing the effect on Zeeland Farm Services comes as an indirect effect to the expiration of turkey grower contracts because its function is as an input to the production of turkeys in the region. However, data of

Zeeland Farm Services' operation is not included in the 1996 data used by IMPLAN. To alleviate this problem, the figures for employment, output and value added that correspond to Zeeland Farm Services were obtained from the company and manually inputted into the study area data.

The Zeeland Farm Services soybean processing plant located in Zeeland, Michigan is of great importance and has great significance to the turkey industry. This facility is responsible for processing 255,500 tons of soybean used for feeding livestock, mainly hogs and turkeys. Its output is divided as follows: oil (91.1 million lbs.), meal (190.5 thousand short (2000 lbs.) tons), hulls (16.6 million lbs.), and shrink (8.3 million lbs.). The importance of Zeeland Farm Services lies in the fact that 45%-50% of the plant's output is allocated to turkey production in District 7. However, the disparity between the amount of soybean used and produced in this district is great.

According to Cliff Meeuwsen, President of Zeeland Farm Services, when the slaughter facility at Bil Mar closed down it affected the soybean processing plant significantly. IMPLAN results show a \$247,882 decrease in output and \$10,218 decrease in value added while employment decline was an insignificant -0.1.

Although volume went virtually unchanged, it was margins that suffered. With limited local market for soymeal through turkey production the plant had to look for business in alternative counties. It cost the plant an additional \$3.00-\$4.00 per ton in freight charges to ship its soymeal to these counties. The output allocated to turkeys dropped significantly to 28% with the balance going to hogs, chickens and dairy. Forming the MTPC will retain most of the plant's output in District 7 and return soymeal consumption for turkey production back to normal. In addition, maintaining

approximately the same demand for soymeal as an input to turkey production from Zeeland Farms will ensure no decreased margins by the soybean processing plant.

Some Michigan turkey growers have temporarily resorted to shipping their live birds to Storm Lake, Iowa approximately 600 miles west of Michigan, to be slaughtered. This is not a viable long-term alternative because of transportation costs and the difficulties of transporting turkeys. Temperature control is paramount during transit and under practical conditions it is difficult to provide a controlled environment during transport and lairage. Therefore it is important to keep the length of these periods down to a minimum (Poultry Processing Worldwide, May 1999).

As an option to address the slaughtering problem, local growers are considering the formation of the Michigan Turkey Producers Cooperative. This cooperative will enable growers to slaughter their birds and sell to Bil Mar and other processing companies.

Forming a cooperative to continue growing and slaughtering turkeys in District 7 salvages all employment lost in the processing sector. By creating 393 processing jobs, all of the 275 slaughter jobs lost are salvaged with additional jobs that could very well include managerial and administrative positions. There is still, however, a decrease in the number of turkey production employees from 123 before expiration to 118 with the MTPC. This is due to the fact that some turkey growers opted to enter new markets and exited turkey production. The MTPC will yield the following impacts shown in Tables 6, 7 and 8:

Table 6: Formation of MTPC Following Bil Mar Shut Down, 100% Rehire and Turkey Growers Remaining Jobless

TYPE	DIRECT	INDIRECT	INDUCED	TOTAL
Employment	388.0	74.4	189.3	651.7
Value Added	\$17,294,775	\$3,485,455	\$7,547,348	\$28,327,579
Output	\$54,629,939	\$8,351,985	\$12,240,749	\$75,222,671

Table 7: Formation of MTPC Following Bil Mar Shut Down, 50% Rehire and Turkey Growers Remaining Jobless

TYPE	DIRECT	INDIRECT	INDUCED	TOTAL
Employment	251.0	47.9	123.0	421.9
Value Added	\$11,249,239	\$2,251,598	\$4,906,523	\$18,407,359
Output	\$35,459,971	\$5,403,937	\$7,957,697	\$48,821,605

Table 8: Formation of MTPC Following Bil Mar Shut Down, 0% Rehire and Turkey Growers Remaining Jobless

TYPE	DIRECT	INDIRECT	INDUCED	TOTAL
Employment	113.0	21.2	56.3	190.5
Value Added	\$5,159,594	\$1,008,734	\$2,246,421	\$8,414,729
Output	\$16,150,075	\$2,434,371	\$3,643,382	\$22,227,828

It is interesting to see that in each scenario the net values are positive which imply that the district is better off with forming the MTPC. The reason for this lies greatly in the fact that when Bil Mar shut down its slaughter facility, all turkey growers were left jobless. Therefore, in each scenario of case one, there are negative values associated with

employment, value added, and output because of the negative employment numbers reflecting turkey growers. On the other hand, the MTPC expects to create 118 grower jobs and 393 processing jobs. Although the grower jobs are less than the previous number of 123, the MTPC expects to create 118 more processing jobs than the 275 lost at shut down. By reestablishing the turkey grower jobs and creating more jobs on the processing side, it is better for district 7 to form the MTPC.

Other industries indirectly impacted by the cooperative in terms of output are “Electric Services” (\$497,441), “Real Estate” (\$142,872), “Motor Freight Transport and Warehousing” (\$568,576), and “Banking” (\$236,147).

To restate the importance of the turkey industry’s preservation, in 1997, three of the seven counties that make up District 7 were included in the five most important Michigan counties in terms of agricultural sales with Ottawa possessing the greatest percent of the state’s total receipts. (Table 7) (National Agricultural Statistics Service, USDA).

Table 7: Michigan’s Top 5 Counties based on 1997 Agricultural Sales

	Percent of State’s Total Receipts	Million \$
Ottawa	8.4%	300.0
Huron	5.9%	211.4
Allegan	5.2%	186.8
Sanilac	3.7%	132.5
Kent	3.4%	121.0
State Total		3,567.8

The members of the MTPC proposes to purchase most of Bil Mar's contracted farms which will help it to almost equal previous output with fewer growers. With this strategy, the MTPC's total net output in "Poultry and Eggs" sector, including direct, indirect and induced effects, is only -\$357,305.

3.3 CONCLUSION

Agriculture in Michigan and the United States has experienced tough times over the past decade and more so over recent years. Michigan farmers are faced with extremely low commodity prices, the realities of producing and marketing a commodity, and inconsistent weather patterns in the Midwest. The changes in Michigan's turkey industry, resulting from the closure of Bil Mar Foods' slaughtering operation, has impacted not only Michigan's turkey industry, but also soybean processing and other input industries. The repercussions of the elimination of grower contracts and lost slaughter jobs are manifested in other agricultural sectors thus impacting the entire district's agricultural industry.

The formation of the MTPC possesses the potential to recover and increase economic activity in the region. It provides farmers an opportunity to preserve their livelihood and maintains the economic activity Bil Mar previously provided. In addition, the recently government-approved feed processing plant in Zeeland, Michigan, will suffer significant margin reductions if there is no attempt to maintain turkey production and ensure slaughter. The decision of whether or not to form the MTPC is critical and has significant consequences.

APPENDIX

As a follow up to the formation of a cooperative to take over the operations discontinued by Bil Mar, an article written in the Michigan Farm News outlines its progress. The article states that the facility, which was approved by the USDA on February 29, 2000 started accepting birds the week of March 6, 2000.

The new facility, located in Wyoming, Michigan, is expected to process 4.25 million birds annually with sales in excess of \$70 million. With a full shift and 250 employees, the members of the Michigan Turkey Producers Cooperative can continue production at 100 percent capacity.

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