



**GOOD, HONEST CHICKEN**

Proposed Strategic Plan  
Capstone Strategic Management Course  
At Francis Marion University  
Fall 2020 Semester

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## Introduction

Sanderson Farms, Inc. was founded in 1947, and is a fully, vertically-integrated poultry processing company engaged in the production, processing, marketing and distribution of fresh and frozen chicken. Headquartered in Laurel, Mississippi, Sanderson Farms is a Fortune 1000 company. Employing more than 15,000 employees in operations spanning five states and 17 different cities, Sanderson Farms is the third largest poultry producer in the United States. Incorporated in 1955 with the initial public offering presented in 1987, common shares of Sanderson Farms, Inc. are traded on the NASDAQ stock exchange under the symbol SAFM. Sanderson Farms, Inc. maximizes stockholder value by being a successful producer and marketer of high quality food products and providing superior service to the food industry.

## Current Vision Statement

“It is not our intent to simply be larger. Our vision is to be special, successful, and at the very top of our industry.” ~Joe Frank Sanderson, Jr.

Source: <https://sandersonfarms.com/our-story/#6th>; 08/19/2020, 8:32 pm

## Proposed Vision Statement

We strive to produce the highest quality, conveniently packaged chicken products that our customers can gladly serve to their friends and family, today and tomorrow.

## Current Mission Statement

As a company, Sanderson Farms is committed to adopting a fresh approach in everything that we do. Not only where products are concerned, but companywide as well. Though the company has grown in size, it still adheres to the same hometown values of honesty, integrity and innovation that were established when the Sanderson family founded the company back in 1947.

Source: <https://sandersonfarms.com/press-releases/sanderson-farms-cultivates-culture-community-charity-chicken/>; 08/20/2020, 2:15 pm

## Proposed Mission Statement

Sanderson Farms’ mission is to provide a variety of high-quality, affordable (7) chicken products (2) to our customers in North America and around the world (3). We believe customer satisfaction, both in households and in the food industry (1), is paramount to our continued success. Our singularity of focus on poultry allows us to be industry leaders through perfecting the production of chicken, from birth to death (5). Our utilization of state-of-the-art animal husbandry and production technology (4) is critical to achieving our goal of operational efficiency. Our philosophy of social and environmental responsibility (8) guides our operations, by prioritizing caring for our employees (9), our animals, and the environment (6). (102 words)

(1) Customers

(2) Products or services

(3) Markets

(4) Technology

(6) Philosophy

(7) Distinctive competence

(8) Public Image

(9) Employees

## (5) Survival, growth and profitability

### Competitive Profile Matrix (CPM)

Below is a matrix detailing information about the Competitive Profile Matrix. This compares Sanderson Farms with two major competitors—Tyson and Pilgrim's Pride.

	<u>Sanderson Farms</u>			<u>Tyson</u>		<u>Pilgrim's Pride</u>	
Critical Success Factors	Weight	Rating	Score	Rating	Score	Rating	Score
International Market Penetration	0.14	2	0.28	4	0.56	1	0.14
Domestic Market Penetration	0.12	2	0.24	4	0.48	3	0.36
Market Share	0.10	2	0.20	4	0.40	3	0.30
Product Quality	0.10	4	0.40	2	0.20	3	0.30
Price Competitiveness	0.10	4	0.40	2	0.20	3	0.30
Customer Loyalty	0.09	2	0.18	4	0.36	3	0.27
Financial Profit	0.08	3	0.24	2	0.16	1	0.08
Advertising	0.07	3	0.21	4	0.28	2	0.14
Customer Service	0.06	4	0.24	3	0.18	2	0.12
Employee Dedication	0.06	4	0.24	1	0.06	2	0.12
Top Management	0.06	4	0.24	3	0.18	2	0.12
Product Variety	0.02	2	0.04	4	0.08	3	0.06
<b>Totals</b>	<b>1.00</b>		<b>2.91</b>		<b>3.14</b>		<b>2.31</b>

There are a few items to note from the CPM above. Sanderson Farms' weighted score on the different metrics is 2.91. This means that Sanderson Farms is a stronger competitor in the market than Pilgrim's Pride, with a score of 2.31. Tyson, however, is doing better competitively with an overall score of 3.14.

### Financial Statements

Below are the income statement and balance sheet for Sanderson Farms for fiscal years 2018 and 2019.

Income Statement	10/31/2018	10/31/2019		Percent Change
Revenues	\$3,236,004,000	\$3,440,258,000	↑	6%
Cost of Goods Sold	2,974,739,000	3,158,323,000	↑	6%
Gross Profit	261,265,000	281,935,000	↑	8%
Operating Expenses	231,565,000	213,941,000	↓	-8%
EBIT	29,700,000	67,994,000	↑	129%
Interest Expense	(857,000)	4,147,000	↓	-584%
EBT	30,557,000	63,847,000	↑	109%
Tax	(30,874,000)	10,553,000	↓	-134%
Non-Recurring Events	0	0	NA	NA
Net Income	61,431,000	53,294,000	↓	-13%

Balance Sheet	10/31/2018	10/31/2019		Percent Change
<b>Assets</b>				
Cash and Short Term Investments	\$121,193,000	\$95,417,000	↓	-21%
Accounts Receivable	121,932,000	131,778,000	↑	8%
Inventory	240,056,000	289,928,000	↑	21%
Other Current Assets	83,308,000	63,988,000	↓	-23%
Total Current Assets	566,489,000	581,111,000	↑	3%
Property Plant & Equipment	1,087,588,000	1,185,860,000	↑	9%
Goodwill	0	0	NA	NA
Intangibles	0	0	NA	NA
Other Long-Term Assets	5,363,000	7,163,000	↑	34%
Total Assets	1,659,440,000	1,774,134,000	↑	7%
<b>Liabilities</b>				
Accounts Payable	128,936,000	132,741,000	↑	3%
Other Current Liabilities	69,953,000	82,940,000	↑	19%
Total Current Liabilities	198,889,000	215,681,000	↑	8%
Long-Term Debt	0	55,000,000	NA	NA
Other Long-Term Liabilities	72,658,000	85,778,000	↑	18%
Total Liabilities	271,547,000	356,459,000	↑	31%
<b>Equity</b>				
Common Stock	22,100,000	22,204,000	↑	0%
Retained Earnings	1,284,524,000	1,309,461,000	↑	2%
Treasury Stock	0	0	NA	NA
Paid in Capital & Other	81,269,000	86,010,000	↑	6%
Total Equity	1,387,893,000	1,417,675,000	↑	2%
<b>Total Liabilities and Equity</b>	<b>1,659,440,000</b>	<b>1,774,134,000</b>	<b>↑</b>	<b>7%</b>

## Ratio Analysis

Below are the financial ratios for Sanderson Farms for 2019 and 2018.

Historical Ratios		
	10/31/2018	10/31/2019
Current Ratio	2.85	2.69
Quick Ratio	1.64	1.35
Total Debt-to-Total-Assets Ratio	0.16	0.20
Total Debt-to-Equity Ratio	0.20	0.25
Times-Interest-Earned Ratio	-35	16
Inventory Turnover	12.39	10.89
Fixed Assets Turnover	2.98	2.90
Total Assets Turnover	1.95	1.94
Accounts Receivable Turnover	26.53941541	26
Average Collection Period	13.75	13.98
Gross Profit Margin %	8%	8%
Operating Profit Margin %	1%	2%
ROA %	4%	3%
ROE %	4%	4%

There are a few important things to note. The poultry industry, like other agricultural industries, is fundamentally characterized by earnings volatility stemming from its dependence on weather, fluctuating commodity prices, and other uncontrollable factors. It does, however, enjoy fairly consistent demand and the chicken industry has been growing steadily since the 1980s (see EFE matrix). Sanderson Farms' relatively high inventory turnover rate speaks to the nature of their industry and the perishability of its products.

## Internal Factor Evaluation (IFE) Matrix

Below is a matrix detailing the Internal Factor Evaluation Matrix (IFE Matrix). This lists Sanderson Farms' greatest strengths and weaknesses as a company.

	Strengths	Weight	Rating	Weighted Score
1	Sanderson Farms pounds poultry sold increased by nearly 3% from 2018 to 2019.	0.08	4	0.32
2	Sanderson Farms had international export gains of \$112 million from 2018 to 2019.	0.07	3	0.21
3	New, state-of-the-art processing plant in Tyler, TX brought 100% online by second quarter of 2020.	0.06	4	0.24
4	Pounds poultry processed increased by 405 million pounds in 2019 from previous year.	0.05	3	0.15
5	Sanderson Farms discontinued antibiotic use in its poultry in 2018 in response to consumer demand for antibiotic-free meats.	0.04	1	0.04
6	In 2019, reduced OSHA injury rates by 10% from previous year.	0.03	3	0.09
7	Third-party animal welfare audit score at 99% in 2019.	0.03	3	0.09
8	Average contract farmer retained for greater than 20 years, compared to Tyson Foods at 15 years.	0.03	3	0.09
9	Sanderson Farms named one of America's Best Employers by Forbes magazine in 2019.	0.01	4	0.04
10	88% of 2019 new hires were minorities and women. Sanderson Farms has 32% greater diversity of employees and board members in relation to Tyson Foods.	0.01	3	0.03

	Weaknesses	Weight	Rating	Weighted Score
1	Sanderson Farms' earnings fell 38.6% from 2019 to 2020.	0.10	2	0.20
2	Sanderson Farms' EPS down \$.93 in 2020 from previous year.	0.08	2	0.16
3	Sanderson Farms share prices down 34% from 2019 to 2020.	0.08	2	0.16
4	Entirely dependent on demand for a single protein source, chicken.	0.07	1	0.07
5	Total liabilities increased from \$271,547,000 to \$356,459,000 from 2018 to 2019.	0.05	2	0.10
6	Sanderson Farms produced 4.7% fewer pounds of packaged poultry in the first half of 2020 as a result of weak demand from restaurants and the food service industry due to the COVID-19 pandemic.	0.05	3	0.15
7	Tyson Foods organic chicken division sales up 7% from 2019 to 2020. Sanderson Farms has no organic offerings.	0.05	1	0.05
8	Perdue Farms achieved its goal to provide outdoor access in 25% of its chicken houses by January 2020. Sanderson Farms' chickens have no outdoor access.	0.05	1	0.05
9	Sales to Sanderson Farms' top ten customers represented approximately 54% of their net sales during fiscal year 2019.	0.04	2	0.08
10	Sanderson Farms faces multiple pending lawsuits in 2020, from price fixing charges to environmental protection violations.	0.02	3	0.06
	<b>Total IFE Score</b>	<b>1.00</b>		<b>2.38</b>

## External Factor Evaluation (EFE) Matrix

Below is the EFE Matrix for Sanderson Farms and the poultry industry. Listed first are the key opportunities followed by the major threats.

	Opportunities	Weight	Rating	Weighted Score
1	Over the next five years, poultry consumption is expected rise an annualized 0.1% to 109.4 pounds per person in the US.	0.10	4	0.4
2	The price of poultry meat in the United States is expected to increase at an annualized rate of 0.8% over the next five years.	0.08	4	0.32
3	Broiler meat exports increased 4.2 % in first half of 2020, with shipments to China offsetting weaknesses in other major markets.	0.04	3	0.12
4	Profit margins in the poultry industry have remained steady over the past 5 years, increasing by .4% in 2020 from 2019.	0.04	2	0.08
5	Poultry industry has reduced amount of grain necessary to produce a salable pound of poultry by 50% in the United States in the last 40 years.	0.04	2	0.08
6	Longer term 15 year contracts with farmers have improved farmer retention by 24% from 2000 to 2020.	0.03	4	0.12
7	Automation in slaughterhouses have reduced OSHA violations by 86% from 1973 to 2020.	0.02	1	0.02
8	In the US, poultry production has been getting steadily more mechanized for decades—going from 3,000 chickens processed per hour in 1970 to 8,000 in 1980 and 15,000 today.	0.02	1	0.02
9	Feed grain prices decreased by 2.7% from 2019 to 2020.	0.02	3	0.06
10	Diesel fuel prices have dropped by \$.62/gallon from 2019 to 2020	0.01	2	0.02



	Threats	Weight	Rating	Weighted Score
1	From March to August 2020, at least 40,517 meatpacking workers have tested positive for COVID-19, and at least 189 have died of COVID-19.	0.12	1	0.12
2	The North American Meat Institute estimates that most plants are at 70% production because of COVID-19 shutdowns and COVID related employee absences.	0.10	1	0.10
3	The Meat, Beef & Poultry Processing industry is expected to see a 43% decline in demand in 2020 from 2019 levels due to the mass closure of food service establishments.	0.09	3	0.27
4	As many as 85% of independent restaurants may permanently close because of the pandemic by the end of 2020.	0.09	3	0.27
5	Real gross domestic product (GDP) decreased at an annual rate of 32.9 percent in the second quarter of 2020.	0.06	3	0.18
6	The net increase of immigrants in the American population dropped by more than 70% from 2018. Immigrants account for the majority of meatpacking employees.	0.06	4	0.24
7	19% increase in demand for free-range or organic poultry expected over next five years. Sanderson Farms does not offer free range or organic poultry.	0.03	1	0.03
8	11.9% of U.S. households currently purchase plant-based meat, up from 10.5% a year ago.	0.03	1	0.03
9	Low revenue growth in the industry predicted at 0.3% from 2020 to 2025.	0.01	3	0.03
10	The chicken companies, including Pilgrim's, Claxton, Tyson Foods, Sanderson Farms and Perdue Farms Inc., have all been indicted on price-fixing charges in 2020.	0.01	1	0.01
	<b>Total EFE Score</b>	<b>1.00</b>		<b>2.52</b>

## Proposed Strategies Developed from SWOT Matrix

Below are strategies developed that Sanderson Farms could pursue to stay competitive and grow the company.

### Strength-Opportunity (SO) Strategies

SO Strategies	
1	Use production gains to increase exports to China by 25% in one year. [S2,S3,S4,O3,O8]
2	Develop 4 new ads to increase customer awareness of "no antibiotics" policy [S5,S7,O1]
3	Increase exports to Mexico by 50% over next 3 years [S3,S4,O3]
4	Offer \$500 sign on bonus to new domestic employee recruits [S9,S10,S6,O7]

### Weakness-Opportunity (WO) Strategies

WO Strategies	
1	Diversify customer base by seeking 40% more new contracts with school districts [W9,O1,O2]
2	Create pamphlet for distribution to shareholders about firm's resilience through COVID crisis[W1,W2,O4]
3	Hire new director of marketing with focus to increase Sanderson Farms brand awareness [W4,O1,O2]
4	Shift 5% fresh pack production to frozen pack [W6,O3]

## Strength-Threat (ST) Strategies

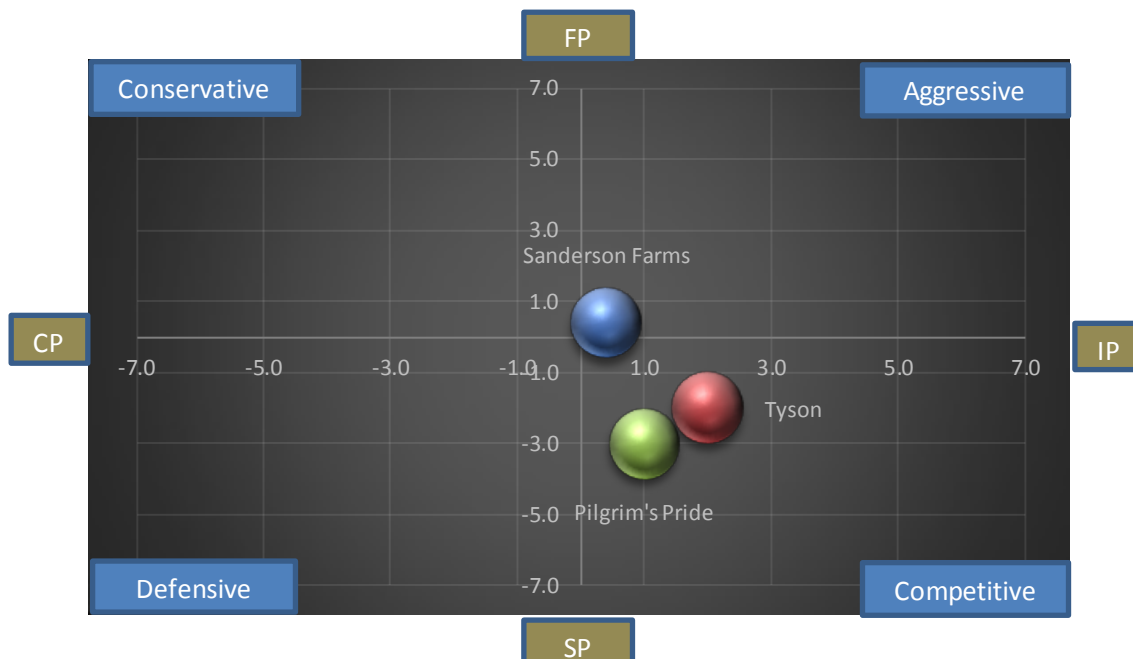
ST Strategies	
1	Shift 50% production for food service customers to export markets. [S2,S3,S4,T3,T4]
2	Transition one-third of contract farmers to free range production model over next 3 years.[S8,T7]
3	Develop all new packaging with animal welfare certification label for 2021 [S7,T7]
4	Hold restaurant competition and offer free chicken for a year for the winner[S4,T3,T4]

## Weakness-Threat (WT) Strategies

WT Strategies	
1	Offer incentives for farmers to transition to 10% organic production [W7,T7]
2	Acquire Beyond Meat, Inc. a plant-based meat substitute company [W4,T8]
3	Develop PR campaign in 2021 to improve image [W10,T10]
4	Recruit 250 more farmer/producers already using free range production model [W8,T7]

## Strategic Position and Action Evaluation (SPACE) Matrix

Below is a Strategic Position and Action Evaluation Matrix (SPACE Matrix) for Sanderson Farms and its two closest competitors, Tyson and Pilgrim's Pride.



	Sanderson Farms	Tyson	Pilgrim's Pride
X Axis	0.4	2.0	1.0
Y Axis	0.4	-2.0	-3.0

<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<b><u>Financial Position (FP)</u></b>		<b><u>Stability Position (SP)</u></b>	
Current Ratio	5	Rate of Inflation	-4
Debt to Equity	7	Technological Changes	-2
Net Income	1	Price Elasticity of Demand	-1
Revenue	2	Competitive Pressure	-7
Inventory Turnover	6	Barriers to Entry into Market	-5
<b><u>Financial Position (FP) Average</u></b>	<b>4.2</b>	<b><u>Stability Position (SP) Average</u></b>	<b>-3.8</b>

<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<b><u>Competitive Position (CP)</u></b>		<b><u>Industry Position (IP)</u></b>	
Market Share	-3	Growth Potential	4
Product Quality	-1	Financial Stability	1
Customer Loyalty	-3	Ease of Entry into Market	3
Variety of Products Offered	-6	Resource Utilization	6
Control over Suppliers and Distributors	-1	Profit Potential	2
<b><u>Competitive Position (CP) Average</u></b>	<b>-2.8</b>	<b><u>Industry Position (IP) Average</u></b>	<b>3.2</b>

The SPACE matrix puts Sanderson Farms in the Aggressive quadrant. It has a stronger than industry average financial position (FP) due to a low debt to equity ratio, high current ratio, and high inventory turnover. The stability position (SP) is a reflection of extreme competitive pressure and high barriers to entry. The poultry industry requires a huge amount of up-front capital in an already well-established market. Like other food industries, it does benefit from a low price elasticity of demand, which improves its stability position.

Sanderson Farms' position on the horizontal axis is affected by the competitive position and industry position. Its industry position (IP) is lower than both Tyson and Pilgrim's Pride, but Sanderson Farms is poised to take advantage of growth opportunities presented by further penetration of export markets (especially China and Mexico). The financial stability score of 1 is an indicator of the volatility and low profit margin nature of the poultry industry in general. However, it is even lower than its competitors because of Sanderson Farms' reliance on a single protein source and its riskier vertically-integrated structure. The competitive position (CP) is worsened by low variety of products offered and low market share.

In addition to Sanderson Farms falling within the aggressive quadrant, there are several factors which recommend a market development strategy. First, unsaturated markets exist in China and Mexico for poultry products. A decrease in domestic demand, due to the mass closure of food service establishments caused by COVID-19, means Sanderson Farms possesses the capacity to supply these markets. Further, the distribution channels to both countries are inexpensive and reliable. Lastly, poultry products are not subject to either Mexican or Chinese tariffs.

## Boston Consulting Group (BCG) Matrix

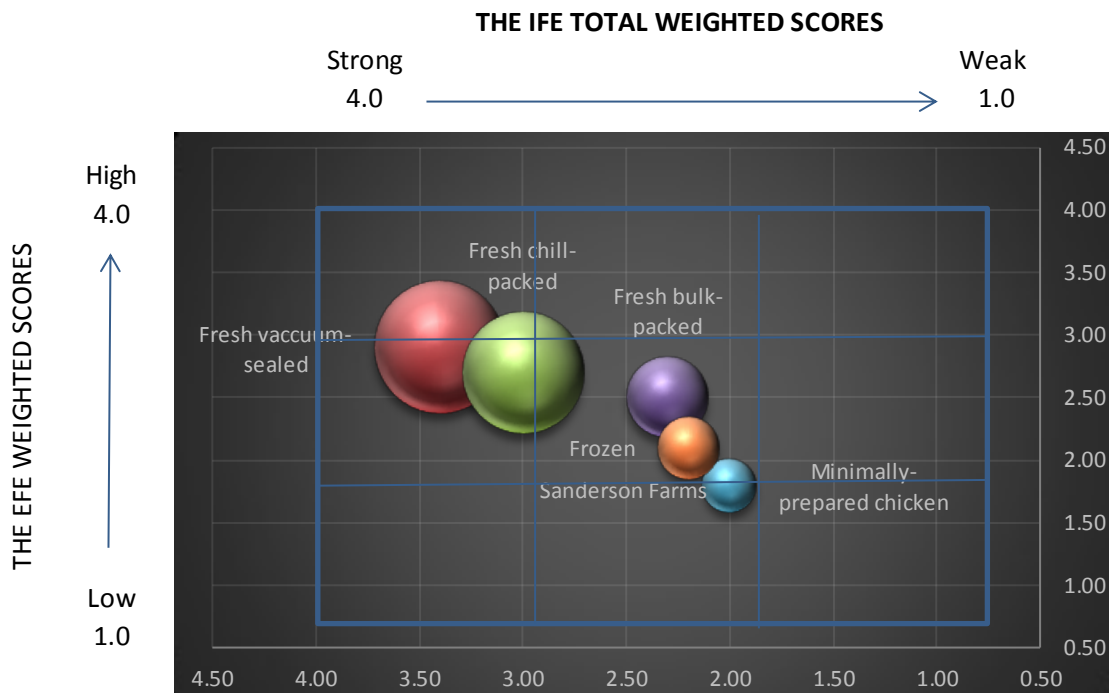
Below is a Boston Consulting Group (BCG) Matrix for Sanderson Farms' operating segments by region. Revenues listed in the table are in millions.



Division	Your Firm's Division Revenues	Top Firm in Industry Division Revenues	Industry Sales Growth Rate	Relative Market Share Position
United States	\$3,161	\$12,610	0.05	0.25
Mexico	\$157	\$76	0.02	2.06
Central Asia	\$44	\$352	0.13	0.12
Other Exports	\$78	\$262	-0.02	0.30

Sanderson Farms' regional segments, United States and Central Asia, lie mostly within the question mark quadrant, due to their relative market share position trailing far behind that of the industry leader, Tyson. Sanderson Farms' sales into Mexico, however, are far and away the star among the divisions, where competitive pressures are less. Efforts to further market penetration into Mexico are a possible strategy indicated by its position. The position of Other Exports in the dog quadrant indicates that efforts in these markets may be better served by increasing exports to Central Asia and Mexico.

## Internal-External (IE) Matrix



Division	Percent of Firm's Division Revenues	Estimated IFE Score	Estimated EFE Score
Fresh vacuum-sealed	\$1,318	3.4	2.9
Fresh chill-packed	\$1,132	3.0	2.7
Fresh bulk-packed	\$495	2.3	2.5
Minimally-prepared chicken	\$213	2.0	1.8
Frozen	\$282	2.2	2.1

From the IE Matrix above, we see that Sanderson Farms' strongest segments are fresh vacuum-sealed and fresh chill-packed chicken. They both have a strong internal and external positioning, as well as accounting for most of Sanderson Farms' revenue. They are weakest in the other three products, fresh bulk-packed, minimally-prepared chicken, and frozen chicken. A major contributing factor to these lower revenues is that the customers for these products are institutions and the food service industry who demand a lower price.

## Quantitative Strategic Planning Matrix (QSPM)

There were several strategies from the SWOT analysis that could be pursued. The two that were determined to be the most attractive recommendations to pursue over the next three years are:

1. Use production gains to increase exports to China by 25% in one year.
2. Transition one-third of contract farmers to free range production model over next 3 years.

China is a market with a growing middle class that Sanderson Farms is just beginning to penetrate. There exists a lot of growth potential here coupled with steady demand that would help offset the recent loss of demand from the domestic food service industry. Sanderson Farms has had success in the past year increasing their revenue from international exports and with their new state-of-the-art processing facility in Tyler, TX should have no trouble meeting supply needs.

Broadly speaking, consumers in the US are demanding more ethically and humanely produced meats. In the past, Sanderson Farms has scored very high with third party auditors as a humane producer of chicken in the traditional mass production model. However, their competition is scooping up market share by offering meats raised in a free range and/or organic production model. It is recommended that Sanderson Farms transitions one-third (approximately 250) of their contract farmers to a free range model over the next three years. Contract farmers who have the space and willingness must be compensated appropriately for the increased investment required to modify their chicken houses and facilities.

Below is a Quantitative Strategic Planning Matrix (QSPM) for Sanderson Farms that analyzes the two recommendations:

			Use production gains to increase exports to China by 25% in one year.	Transition one-third of contract farmers to free range production model over next 3 years.		
	Strengths	Weight	AS	TAS	AS	TAS
1	Sanderson Farms pounds poultry sold increased by nearly 3% from 2018 to 2019.	0.08	4	0.32	3	0.24
2	Sanderson Farms had international export gains of \$112 million from 2018 to 2019.	0.07	4	0.28	3	0.21
3	New, state-of-the-art processing plant in Tyler, TX brought 100% online by second quarter of 2020.	0.06	3	0.18	1	0.06
4	Pounds poultry processed increased by 405 million pounds in 2019 from previous year.	0.05	3	0.15	1	0.05
5	Sanderson Farms discontinued antibiotic use in its poultry in 2018 in response to consumer demand for antibiotic-free meats.	0.04	0	0.00	0	0.00
6	In 2019, reduced OSHA injury rates by 10% from previous year.	0.03	0	0.00	0	0.00
7	Third-party animal welfare audit score at 99% in 2019.	0.03	1	0.03	4	0.12
8	Average contract farmer retained for greater than 20 years, compared to Tyson Foods at 15 years.	0.03	1	0.03	4	0.12
9	Sanderson Farms named one of America's Best Employers by Forbes magazine in 2019.	0.01	0	0.00	0	0.00
10	88% of 2019 new hires were minorities and women. Sanderson Farms has 32% greater diversity of employees and board members in relation to Tyson Foods.	0.01	0	0.00	0	0.00

			Use production gains to increase exports to China by 25% in one year.	Transition one-third of contract farmers to free range production model over next 3 years.		
	Weaknesses	Weight	AS	TAS	AS	TAS
1	Sanderson Farms' earnings fell 38.6% from 2019 to 2020.	0.10	0	0.00	0	0.00
2	Sanderson Farms' EPS down \$.93 in 2020 from previous year.	0.08	0	0.00	0	0.00
3	Sanderson Farms share prices down 34% from 2019 to 2020.	0.08	0	0.00	0	0.00
4	Entirely dependent on demand for a single protein source, chicken.	0.07	0	0.00	0	0.00
5	Total liabilities increased from \$271,547,000 to \$356,459,000 from 2018 to 2019.	0.05	0	0.00	0	0.00
6	Sanderson Farms produced 4.7% fewer pounds of packaged poultry in the first half of 2020 as a result of weak demand from restaurants and the food service industry due to the COVID-19 pandemic.	0.05	3	0.15	1	0.05
7	Tyson Foods organic chicken division sales up 7% from 2019 to 2020. Sanderson Farms has no organic offerings.	0.05	1	0.05	4	0.20
8	Perdue Farms achieved its goal to provide outdoor access in 25% of its chicken houses by January 2020. Sanderson Farms' chickens have no outdoor access.	0.05	1	0.05	4	0.20
9	Sales to Sanderson Farms' top ten customers represented approximately 54% of their net sales during fiscal year 2019.	0.04	4	0.16	1	0.04
10	Sanderson Farms faces multiple pending lawsuits in 2020, from price fixing charges to environmental protection violations.	0.02	0	0.00	0	0.00

			Use production gains to increase exports to China by 25% in one year.	Transition one-third of contract farmers to free range production model over next 3 years.		
	Opportunities	Weight	AS	TAS	AS	TAS
1	Over the next five years, poultry consumption is expected rise an annualized 0.1% to 109.4 pounds per person in the US.	0.10	1	0.10	3	0.30
2	The price of poultry meat in the United States is expected to increase at an annualized rate of 0.8% over the next five years.	0.08	1	0.08	3	0.24
3	Broiler meat exports increased 4.2 % in first half of 2020, with shipments to China offsetting weaknesses in other major markets.	0.04	4	0.16	2	0.08
4	Profit margins in the poultry industry have remained steady over the past 5 years, increasing by .4% in 2020 from 2019.	0.04	4	0.16	3	0.12
5	Poultry industry has reduced amount of grain necessary to produce a salable pound of poultry by 50% in the United States in the last 40 years.	0.04	2	0.08	3	0.12
6	Longer term 15 year contracts with farmers have improved farmer retention by 24% from 2000 to 2020.	0.03	1	0.03	4	0.12
7	Automation in slaughterhouses have reduced OSHA violations by 86% from 1973 to 2020.	0.02	0	0.00	0	0.00
8	In the US, poultry production has been getting steadily more mechanized for decades—going from 3,000 chickens processed per hour in 1970 to 8,000 in 1980 and 15,000 today.	0.02	2	0.04	1	0.02
9	Feed grain prices decreased by 2.7% from 2019 to 2020.	0.02	2	0.04	3	0.06
10	Diesel fuel prices have dropped by \$.62/gallon from 2019 to 2020 as a result of lower liquid fuel demand following the coronavirus pandemic.	0.01	2	0.02	3	0.03



		Use production gains to increase exports to China by 25% in one year.		Transition one-third of contract farmers to free range production model over next 3 years.	
Threats	Weight	AS	TAS	AS	TAS
1 From March to August 2020, at least 40,517 meatpacking workers have tested positive for COVID-19, and at least 189 have died of COVID-19.	0.12	0	0.00	0	0.00
2 The North American Meat Institute estimates that most plants are at 70% production because of COVID-19 shutdowns and COVID related employee absences.	0.10	0	0.00	0	0.00
3 The Meat, Beef & Poultry Processing industry is expected to see a 43% decline in demand in 2020 from 2019 levels due to the mass closure of food service establishments.	0.09	4	0.36	1	0.09
4 As many as 85% of independent restaurants may permanently close because of the pandemic by the end of 2020.	0.09	4	0.36	1	0.09
5 Real gross domestic product (GDP) decreased at an annual rate of 32.9 percent in the second quarter of 2020.	0.06	3	0.18	1	0.06
6 The net increase of immigrants in the American population dropped by more than 70% from 2018. Immigrants account for the majority of meatpacking employees.	0.06	0	0.00	0	0.00
7 19% increase in demand for free-range or organic poultry expected over next five years. Sanderson Farms does not offer free range or organic poultry.	0.03	1	0.03	4	0.12
8 11.9% of U.S. households currently purchase plant-based meat, up from 10.5% a year ago.	0.03	3	0.09	1	0.03
9 Low revenue growth in the industry predicted at 0.3% from 2020 to 2025.	0.01	0	0.00	0	0.00
10 The chicken companies, including Pilgrim's, Claxton, Tyson Foods, Sanderson Farms and Perdue Farms Inc., have all been indicted on price-fixing charges in 2020.	0.01	0	0.00	0	0.00
<b>TOTALS</b>			<b>3.13</b>		<b>2.01</b>

According to the QSPM analysis, it is determined that increasing exports to China by 25% is the more attractive recommendation, with a rating of 3.13 over 2.01 for transitioning one-third of contract farmers to a free range production model. In addition, the cost to shift production gains to China will be a minimal investment in comparison to the high cost associated with modifying existing chicken houses to allow for outdoor access.

## Recommendations

Below is a list of recommendations that Sanderson Farms should implement over the next three years and their associated cost.

#	Recommendations	Year 1	Year 2	Year 3	Total Cost
1	Use production gains to increase exports to China by 25% in one year.	\$250,000	\$250,000	\$250,000	\$750,000
2	Develop all new packaging with animal welfare certification label for 2021.	\$50,000	\$0	\$0	\$50,000
3	Develop 4 new ads to increase customer awareness of "no antibiotics" policy.	\$20,000,000	\$0	\$0	\$20,000,000
4	Increase exports to Mexico by 50% over next 3 years.	\$283,969	\$283,969	\$283,969	\$851,906
5	Offer \$500 sign on bonus to new domestic employee recruits.	\$4,875,000	\$0	\$0	\$4,875,000
6	Transition one-third of contract farmers to free range production model over next 3 years.	\$20,720,000	\$20,720,000	\$20,720,000	\$62,160,000
7	Hold restaurant competition and offer free chicken for a year for the winner.	\$65,700	\$0	\$0	\$65,700
8	Create pamphlet for distribution to shareholders about firm's resilience through COVID crisis.	\$2,497,000	\$0	\$0	\$2,497,000
9	Hire new director of marketing with focus to increase Sanderson Farms brand awareness.	\$145,269	\$0	\$0	\$145,269
10	Shift 5% fresh pack production to frozen pack.	\$0	\$0	\$0	\$0
				<b>Total Cost</b>	<b>\$91,394,875</b>

## Explanations for Recommendations:

1. Beijing removed an almost five-year ban on U.S. poultry imports in November 2019. The spread of African Swine Fever has devastated Chinese hog herds, cut pork production, and resulted in a gap in protein supplies in China. In light of these circumstances, US chicken exporters have an opportunity to fill part of the protein gap in China in a significant way for the first time in over a decade. In addition, Beijing recently made U.S. poultry shipments eligible for exemptions from extra tariffs. A 20' shipping container has a max payload of approximately 22 tons (44,000 lbs) and the cost to ship it from Texas to Shanghai is about \$1000. Sanderson Farms can expect to receive \$1/lb for chicken feet (part in highest demand) exporting to China. A 25% increase in exports to China translates to an \$11 million dollar increase in sales. Therefore, Sanderson Farms would have to send an additional 250 containers in one year for a total cost of \$250,000. In their 2019 10-K, it was reported that they have the capacity to produce 87 million pounds of chicken feet annually, so they should have no problem meeting the goal of 11 million more pounds to export to China.
2. An estimate of \$50,000 for new packaging is based on an average figure for new packaging design in food industry for a corporation.
3. In 2018, Sanderson Farms embarked on an ad campaign to educate the public about their judicious use of antibiotics in their chickens. There was no such targeted ad campaign in 2019, and the reported advertising costs were \$20 million less in FY 2019. Therefore, it is assumed that a reasonable estimate for an ad campaign about their new antibiotic-free policy may run approximately \$20 million.
4. Mexico is already the destination for the majority of Sanderson Farms' exports and demand there is steadily increasing at an annual rate of 3.3%. Additionally, Mexico experienced a chicken shortage last year due to the devastating effects of avian influenza on their domestic supply, which prompted the Mexican government to eliminate tariffs on chicken imports. Logistically, many of Sanderson Farms' processing plants (especially Palestine, TX) are in close proximity to the Mexican border. Mexican customers favor legs and thighs as opposed to the American preference for chicken breast. These factors make exporting to Mexico particularly attractive. With US restaurants floundering due to COVID-19, the processing capacity of Sanderson Farms'

plants could be diverted to supply Mexican consumers instead. The fresh and frozen meat would be transported by freight with the most significant cost being fuel. The closest processing plant to Mexico is the Palestine, TX location. The average poultry export price stood at \$1,181 per ton in 2018 (\$1.69/lb). See table below for assumptions used:

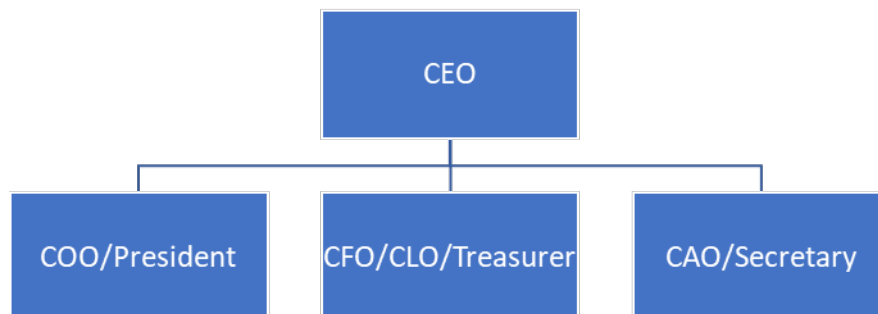
50% increase in exports	\$79,000,000
Price per ton	\$1,181
Additional tons to Mexico	66892
Tons per 20' freight container	22
Additional freight containers	3041
Fuel cost from Palestine, TX to Nuevo Laredo, Mexico (round trip)	\$280
<b>Total additional cost</b>	<b>\$851,906</b>

5. Employee turnover is a huge problem for poultry processors in the United States. An industry estimate of employee turnover at 65% was used for the above recommendation. Sanderson Farms has approximately 15,000 employees at any one time. Therefore,  $15,000 \times .65 = 9750$  new recruits per year and  $\$500 \text{ sign on bonus per recruit} = \$4,875,000$
6. The process of modifying an existing chicken house from fully indoors to one that provides an opportunity for the birds to access the outdoors involves removing the wall on one side from about 4' off the ground along the entire length of the building and then putting up a fence to keep out predators. Contract farmers for Sanderson Farms currently operate about 6280 chicken houses, one third of which would be 2072 houses. These houses are on average 500' long and cost about \$200,000 to build brand new. As a conservative estimate, I used 15% of new construction costs as a figure to modify each house, which totals \$30,000 per house.
7. The estimate for this recommendation was derived from a small/medium sized restaurant using 20 lbs/day in chicken breast (365 days), which has a retail price of \$9/lb. This is most likely a somewhat generous estimate and is based on the assumption of restaurants utilizing more chicken breast than other parts of the bird.
8. The cost to produce a high gloss tri-fold pamphlet for distribution to all shareholders on record (22,203,920) is estimated from the Vistaprint website for an order of that quantity.
9. A search for the average salary of a corporate marketing director yielded the above estimation.
10. Shifting 5% of production from fresh-pack to frozen-pack would add no additional cost and would also support the above recommendations regarding exports.

## Organizational Chart

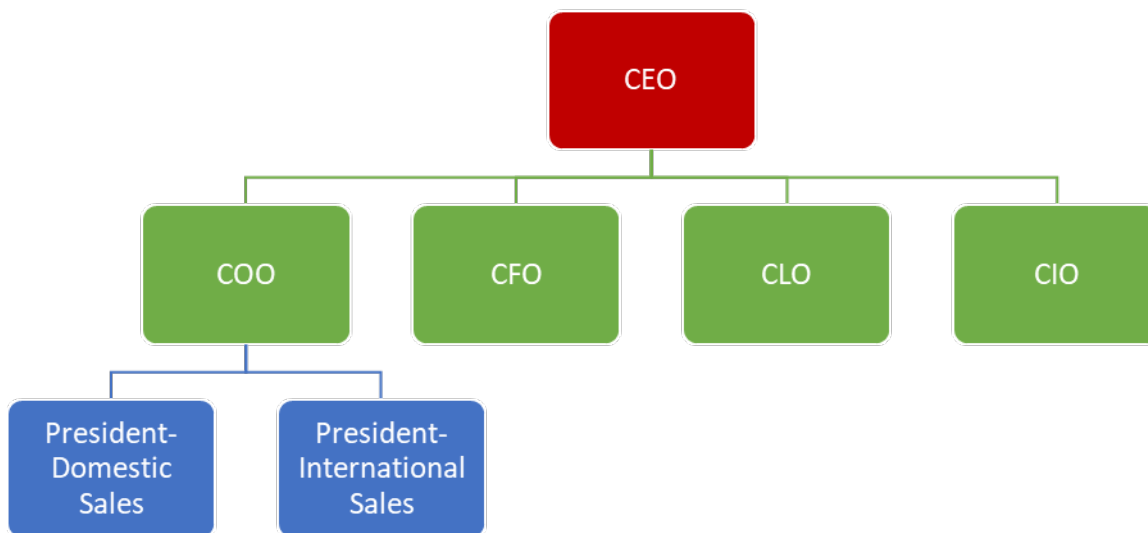
### Current Organizational Chart

Below is the current organizational chart for Sanderson Farms:



Sanderson Farms, Inc. bills itself as a small family company despite its position as the number three poultry producer in the US. The scale of its operations, its risk environment, and logistical challenges suggest that it could benefit from greater division of responsibilities in its corporate governance. Their current corporate structure is too consolidated and severely lacking in diversity.

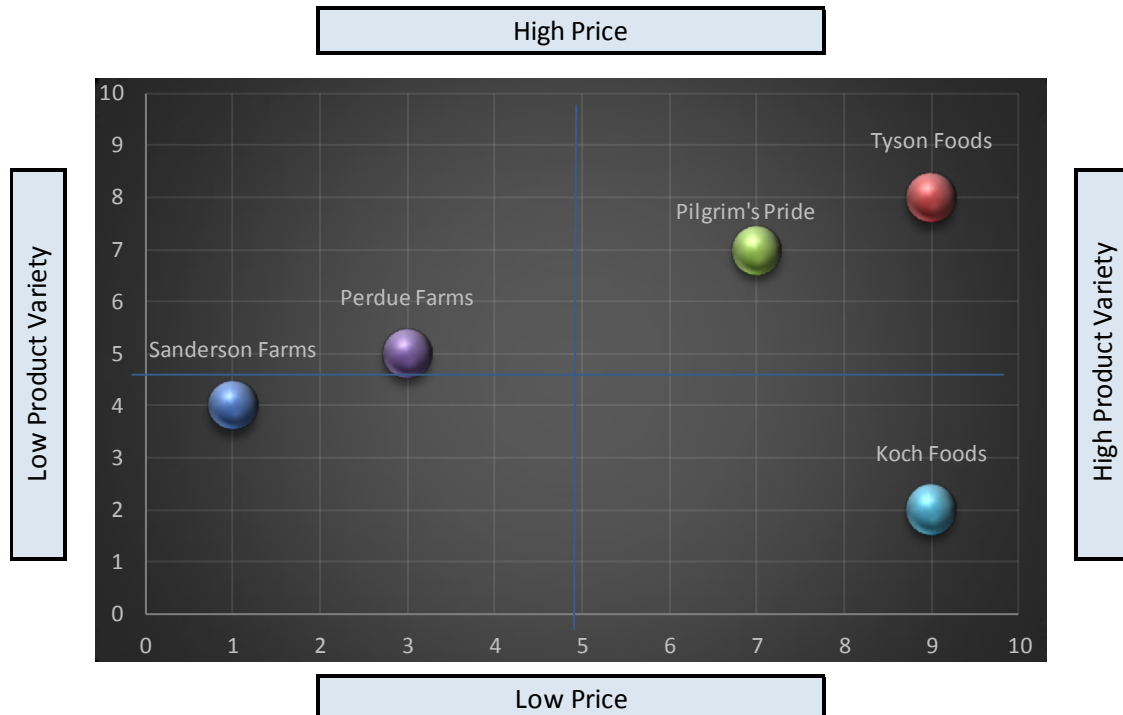
### Proposed Organizational Chart



The redundancy of having a CFO and a CAO has been eliminated. The CFO and CLO positions have been separated. The position of CIO has been added to the list of C suite executives. The addition of presidents for domestic and international sales will allow for the delegation of responsibilities necessary for Sanderson Farms to progress towards their goal of being market leader in the US and expanding its presence internationally. Priority should be given to injecting substantial diversity into the leadership team at Sanderson Farms, as they have already successfully achieved in the makeup of their board of directors.

## Perceptual Map

Below is a perceptual map for Sanderson Farms and its rival firms in the market. Because Sanderson Farms only produces one product (raw chicken), the map uses two factors to evaluate the product offerings among the competitors. The two factors are price and product variety.



The perceptual map further clarifies Sanderson Farms' position among its competitors. It does one thing very well, raise and process chicken. Its narrow product offerings are of high quality with a relatively low price. In contrast, the competition has greatly diversified their product lines over the years. Tyson, Pilgrim's Pride, and Perdue also have greater name recognition in the United States and have been able to demand a higher price because of this.

It is recommended that Sanderson Farms hire a dedicated marketing director and begin a new ad campaign to boost consumer awareness and loyalty of their brand. These ads should focus on highlighting their consistent high animal welfare ratings, their elimination of antibiotic use, and their goal of transitioning one third of their grower operations to a free range model. It is not recommended that Sanderson Farms attempt to diversify its product offerings. Although the competition has done so, they have not reaped greater financial benefits as a result. Sanderson Farms has a stronger financial position than any of its competitors and diversification would only put that strength in jeopardy as they venture outside of their distinctive competency.

## Firm Valuation

Below is Sanderson Farms' firm valuation compared to its closest competitor—Pilgrim's Pride. All values are in whole dollars.

<b>Sanderson Farms, Inc.</b>	
Stockholders' Equity - (Goodwill + Intangibles)	\$1,417,675,000
Net Income x 5	\$266,470,000
(Share Price/EPS) x Net Income	\$2,715,095,338
Number of Shares Outstanding x Share Price	\$2,715,095,338
<b>Method Average</b>	<b>\$1,778,583,919</b>
<b>Pilgrim's Pride</b>	
Stockholders' Equity - (Goodwill + Intangibles)	\$955,860,000
Net Income x 5	\$2,279,620,000
(Share Price/EPS) x Net Income	\$4,128,229,880
Number of Shares Outstanding x Share Price	\$4,135,410,012
<b>Method Average</b>	<b>\$2,874,779,973</b>

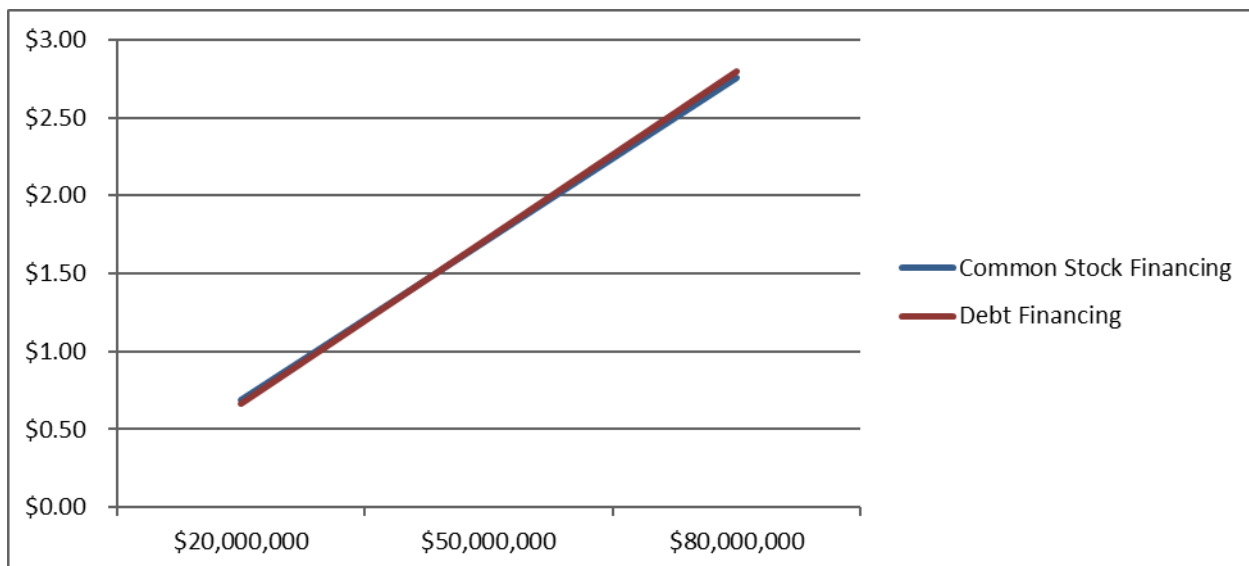
Based on the firm valuations, we see that Pilgrim's Pride's net valuation is routinely higher than Sanderson Farms' because it is a larger and more diversified firm. It is worth noting that over the years Pilgrim's Pride has acquired smaller firms and therefore accumulated goodwill, whereas Sanderson Farms has never done so. This is the reason that the first line (stockholders' equity – (goodwill + intangibles) is notably larger for Sanderson Farms.

## EPS-EBIT Analysis

Below is an analysis of the Earnings Per Share (EPS) and Earnings Before Interest and Taxes (EBIT). All numbers are in whole dollars.

	<u>Common Stock Financing</u>			<u>Debt Financing</u>		
	<i>Pessimistic</i>	<i>Realistic</i>	<i>Optimistic</i>	<i>Pessimistic</i>	<i>Realistic</i>	<i>Optimistic</i>
<b>EBIT</b>	\$20,000,000	\$50,000,000	\$80,000,000	\$20,000,000	\$50,000,000	\$80,000,000
<b>Interest</b>	0	0	0	1,370,923	1,370,923	1,370,923
<b>EBT</b>	20,000,000	50,000,000	80,000,000	18,629,077	48,629,077	78,629,077
<b>Taxes</b>	4,200,000	10,500,000	16,800,000	3,912,106	10,212,106	16,512,106
<b>EAT</b>	15,800,000	39,500,000	63,200,000	14,716,971	38,416,971	62,116,971
<b># Shares</b>	22,951,343	22,951,343	22,951,343	22,203,920	22,203,920	22,203,920
<b>EPS</b>	<b>\$0.69</b>	<b>\$1.72</b>	<b>\$2.75</b>	<b>\$0.66</b>	<b>\$1.73</b>	<b>\$2.80</b>

Below is a figure illustrating the changes of EPS (y-axis) with estimated EBIT values (x-axis).



In both situations, EPS does not change significantly from choosing debt financing over common stock financing.

Stock	50%	Debt	50%
	<i>Pessimistic</i>	<i>Realistic</i>	<i>Optimistic</i>
<b>EBIT</b>	\$20,000,000	\$50,000,000	\$80,000,000
<b>Interest</b>	685,462	685,462	685,462
<b>EBT</b>	19,314,538	49,314,538	79,314,538
<b>Taxes</b>	4,056,053	10,356,053	16,656,053
<b>EAT</b>	15,258,485	38,958,485	62,658,485
<b># Shares</b>	22,577,631	22,577,631	22,577,631
<b>EPS</b>	<b>\$0.68</b>	<b>\$1.73</b>	<b>\$2.78</b>

Amount Needed	\$91,394,875
Interest Rate	2%
Tax Rate	21%
# Shares Outstanding	22203920.0
Additional Shares Outstanding Needed	747422.92
Stock Price	\$122.28

From the analysis, we see that the best way to increase EPS is by financing the recommendations through debt rather than issuing stock. This makes sense especially as interest rates are extremely low, bringing down the cost of borrowing money. Sanderson Farms also carries very little debt currently and its debt-to-equity ratio is consistently below .5 across all reported years. Therefore, taking on more debt would not put them in an unreasonably precarious financial position. In addition, the current volatility of their stock price and significant losses sustained this year due to COVID-19 may cause their stock to be less attractive to investors making raising the necessary capital through stock issuance less of a certainty.

## Projected Financial Statements

With the previously mentioned recommendations in mind, below are the projected financial statements for the next three years. This includes the income statement and balance sheet. All dollar amounts are in whole dollars.

Projected Income Statement	12/31/2020	12/31/2021	12/31/2022
Revenues	\$3,509,063,160	\$3,684,516,318	\$3,905,587,297
Cost of Goods Sold	3,228,338,107	3,389,755,013	3,593,140,313
Gross Profit	280,725,053	294,761,305	312,446,984
Operating Expenses	210,543,790	221,070,979	234,335,238
EBIT	70,181,263	73,690,326	78,111,746
Interest Expense	5,517,923	5,517,923	5,517,923
EBT	64,663,340	68,172,403	72,593,823
Tax	13,579,301	14,316,205	15,244,703
Non-Recurring Events	0	0	0
Net Income	51,084,039	53,856,199	57,349,120

A modest increase in revenues is projected for 2020 with the damaging effects of COVID-19 offset somewhat by the recommended increase in exports to China and Mexico. Revenue gains for 2021 and 2022 are more pronounced resulting from the recommended increase in advertising and improving public image for the firm. Interest expense has made a significant jump due to the recommendations being financed 100% by debt.



<b>Projected Balance Sheet</b>	<b>12/31/2020</b>	<b>12/31/2021</b>	<b>12/31/2022</b>
<b>Assets</b>			
Cash and Equivalents	\$172,511,998	\$175,270,101	\$178,692,820
Accounts Receivable	140,362,526	147,380,653	156,223,492
Inventory	280,725,053	294,761,305	312,446,984
Other Current Assets	70,181,263	73,690,326	78,111,746
Total Current Assets	663,780,840	691,102,385	725,475,042
Property Plant & Equipment	1,206,580,000	1,227,300,000	1,248,020,000
Goodwill	0	0	0
Intangibles	0	0	0
Other Long-Term Assets	7,018,126	7,369,033	7,811,175
Total Assets	1,877,378,967	1,925,771,418	1,981,306,216
<b>Liabilities</b>			
Accounts Payable	140,362,526	147,380,653	156,223,492
Other Current Liabilities	70,181,263	73,690,326	78,111,746
Total Current Liabilities	210,543,790	221,070,979	234,335,238
Long-Term Debt	146,394,875	146,394,875	146,394,875
Other Long-Term Liabilities	70,181,263	73,690,326	78,111,746
Total Liabilities	427,119,928	441,156,180	458,841,859
<b>Equity</b>			
Common Stock	22,304,000	22,404,000	22,504,000
Retained Earnings	1,330,545,039	1,353,401,237	1,379,750,358
Treasury Stock	0	0	0
Paid in Capital & Other	97,410,000	108,810,000	120,210,000
Total Equity	1,450,259,039	1,484,615,237	1,522,464,358
<b>Total Liabilities and Equity</b>	<b>1,877,378,967</b>	<b>1,925,771,418</b>	<b>1,981,306,216</b>

In terms of assets, property, plant, and equipment is projected to increase for the next three years by \$20.7 million per year from capitalizing the chicken house modifications required to transition one third of them to a free range production model. As the modifications are replacing a major component of the chicken houses and not simply repairs due to normal wear and tear of the structure, the costs can be capitalized.

In the liabilities section, as the interest expense increased on the projected income statement, so too does long-term debt as a result of using 100% debt to finance all of the recommendations.

In the equity section, modest yearly growth is projected to continue for the common stock and paid in capital accounts as it has for all past reported years.

## Projected Financial Ratios

Below are the financial ratios, projected for the next three years, using our recommendations.

Projected Ratios			
	12/31/2020	12/31/2021	12/31/2022
Current Ratio	3.15	3.13	3.10
Quick Ratio	1.82	1.79	1.76
Debt-to-Total-Assets Ratio	0.23	0.23	0.23
Debt-to-Equity Ratio	0.29	0.30	0.30
Times-Interest-Earned Ratio	13	13	14
Inventory Turnover	11.50	11.50	11.50
Fixed Assets Turnover	2.91	3.00	3.13
Total Assets Turnover	1.87	1.91	1.97
Accounts Receivable Turnover	25	25	25
Average Collection Period	14.60	14.60	14.60
Gross Profit Margin %	8%	8%	8%
Operating Profit Margin %	2%	2%	2%
ROA %	3%	3%	3%
ROE %	4%	4%	4%

Items of particular interest from the table are the increases in the current ratio, debt-to-total-assets ratio, and debt-to-equity ratio. These changes are not surprising, as the recommendations call for an increase in exports to China and Mexico and a funding of the recommendations wholly through long-term debt. Sanderson Farms carries such little debt, that even adding \$91 million dollars still results in very low ratios of debt versus total assets or equity. The projected ratios provide further evidence of the benefits outweighing the costs for the recommendations.

## Retained Earnings Table

Below is a projected Returned Earnings Table for the next three years, using the recommendations. All amounts are in whole dollars.

	Dividend Information			Balance Sheet Information	
Steps	1	2	3	4	5
Year	Current Year's Net Income	Less Current Year's Dividends Paid	New RE	Plus Prior Year's RE	Current Year's Balance Sheet RE
12/31/2020	\$51,084,039	\$30,000,000	\$21,084,039	\$1,309,461,000	\$1,330,545,039
12/31/2021	\$53,856,199	\$31,000,000	\$22,856,199	\$1,330,545,039	\$1,353,401,237
12/31/2022	\$57,349,120	\$31,000,000	\$26,349,120	\$1,353,401,237	\$1,379,750,358

Sanderson Farms has traditionally issued yearly dividends and it is recommended for that practice continue. Dividend payout positively influences both new investor interest and current shareholder satisfaction.

## Executive Summary

Sanderson Farms is a strong, well-managed company in a highly competitive industry characterized by volatility, high risk, and low profit margins. Part of its strength has been its unwavering commitment to its distinctive competence of producing the very best chicken. Tyson Foods and Pilgrim's Pride, Sanderson Farms' two biggest competitors, have greatly diversified their operations to offer a wide variety of prepared foods in addition to meat products. However, diversification has not translated to greater financial stability or greater shareholder value. Sanderson Farms' stock is worth more than twice as much as Tyson's and 8 times as much as Pilgrim's Pride.

Sanderson Farms has long been an industry leader in the humane production of chicken by the conventional production method of 100% indoor confinement. Now in order to maintain its standing, it must adapt. Its competitors have introduced free range and/or organic options to their product mix in response to changing consumer preferences. With 83% of millennials taking animal welfare into account when buying food, it's clear that public demand for better treatment of farm animals is not just a trend. Significant investments in modifying chicken grower houses to allow for outdoor access are necessary to secure its place in the market for many more years to come. I recommend transitioning one-third of their chicken houses to this free range model over a period of three years to address this substantial weakness.

In addition, after years of banning poultry imports, China's borders are now open, tariff-free. The country is home to an enormous quantity of potential customers. Sanderson Farms' competition is moving to secure a foothold in this market, but there is still plenty of demand to be satisfied. It is recommended that Sanderson Farms increase exports to China by 25% in 2020. Mexico is another market with unfulfilled demand. Its proximity to Sanderson Farms' processing plants is a huge strategic advantage. Increasing exports to both countries would translate to large gains for minimal cost.

Several recommendations focus on marketing, an area of weakness for Sanderson Farms. I recommend hiring a marketing director dedicated to improving brand awareness and their public image. New packaging with certified humane labeling, a new ad campaign, and a restaurant competition would help differentiate Sanderson Farms from its competition in a positive way.

Sanderson Farms has worked very hard to earn a place on Forbes' 2019 list of best places to work. However, the poultry industry, in general, is plagued by high employee turnover and relies heavily on immigrant labor. The net increase of immigrants in the American population dropped by more than 70% from 2018, representing a major threat to their ability to find new employees. It is recommended that Sanderson Farms begin a new program offering a \$500 sign on bonus to domestic recruits.

The COVID-19 pandemic has been devastating for meat processors nationwide. Processing plants have become hotspots for infection. The resulting plant shutdowns have caused unprecedented losses up and down the supply chain. The last two recommendations deal with these issues specifically. First, I recommend that an informational pamphlet be distributed to all shareholders on record. Sanderson Farms' solid financial position gives it greater resilience to weather these short-term losses than the competition. Secondly, as plants reopen and demand from the food service industry is still depressed, I recommend that they shift 5% production from fresh-pack to frozen-pack. This is a no cost strategy that will also support the recommendations of increasing exports to China and Mexico.

Although facing many challenges, Sanderson Farms is in an advantageous position and should pursue aggressive growth through market penetration internationally and product development domestically.

The company is uniquely American. Traditional values of conservatism and an emphasis on quality and ethical behavior have grown it from a small family-owned feed store in Mississippi to a complex, fully vertically-integrated corporation with over 15,000 employees. With the solid foundation they have carefully built, Sanderson Farms is ready to compete more aggressively to secure its place as the provider of the highest quality chicken products in the United States and abroad.