

Perdue farms



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Perdue Farms

There is a very successful business operation in Salisbury, Maryland. It is a company that sells agricultural products and its name is well-known in the United States and even in some parts of the world. The name is Perdue Farms, Inc. its name now synonymous with high quality produce and a leadership that is passionate about excellence.

The organization's mission statement offers an accurate picture of where the company is going and where it came from. In a research project designed to study Perdue Farms the proponents were able to find out that they are in for the long haul, in order to, " Enhance the quality of life with great food and agricultural products. While striving to fulfill our mission, we use our values to guide our decisions..." (Rubenson & Shipper, 2001, p. 260).

It seems that the leadership behind Perdue Farms are serious in reaching their goal and very much committed to deliver what they have promised to their customers. This is because in the 1990s alone the company experienced robust growth and was able to expand internationally. By fiscal year 1998 international sales were already hitting an impressive \$180 million per year while serving international customers like Puerto Rico, South America, Europe, Japan, and China. To date, the company currently employs 20, 000 associates (employees) working hard in increasing revenue to more than \$2. 5 billion. Not bad for a company that started by selling chicken eggs in the 1920s.

This paper will attempt to find out what Perdue Farms has been doing for the past few decades that would explain their runaway success. Moreover, aside from studying their strengths, included in the analysis would be their <https://assignbuster.com/perdue-farms/>

perceived weaknesses and the possible threats that would derail a runaway locomotive of entrepreneurial success.

Right Way

It seems that since the beginning Perdue Farms had done everything right. Founder Arthur Perdue built it on a solid foundation. Arthur made sure that only the best quality products reach their customers. He was also fiscally responsible - always looking for a way to save money and to minimize costs. For an entrepreneur there is no better way to start than to have a clear understanding of the kind of hard work needed to succeed and the iron will to save and minimize operational costs.

Aside from hard work and frugality the first great thing that Perdue Farms decided to accomplish is to vertically integrate their operations. It all began when Arthur Perdue bought leghorn-breeding stock from Texas to improve quality. Soon they began to expand their operation and began shipments to New York. Expanding their egg market to New York was a bold move but a wise one since this area allowed Perdue to increase sales. The distance between Maryland and New York was considered as an advantage because it is not far enough to create problems with quality and freshness of the products.

The next phase of their development provides a much clearer picture concerning vertical integration which by the way is considered as a major key to their success. By the year 1940 Perdue Farms was already well known in the " Delmarva Peninsula" (Delaware, Maryland, Virginia). Even the relatively faraway New Yorkers are well aware of the high quality of products that are coming out from the said farm. But then Arthur made another bold

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move. He realized that there is more money to selling chickens than eggs. A joke goes around the company that in this case the egg came first before the chicken.

By going into the new business of selling broilers Arthur began to seriously improve on the idea of vertical integration. They did not merely buy chicks - also known as peeps in this part of the U. S. - and merely feed them until maturity. They established their own hatchery. It is not hard to deduce why Arthur Perdue decided to have hatcheries. The obvious reason is the great need to ensure high quality chickens. It would be difficult if not impossible to achieve a high level of consistency if Perdue could not fully ascertain where the chicks are coming from. In this case they could never be sure what kind of chickens will come out from the chicken house.

Aside from controlling the hatchery phase of the operation, another major step was to create the Perdue feed formulation. Again, the reason is very obvious by mixing their own and not relying on third party suppliers Perdue will never have to worry about getting shortchanged if the supplier decided to make more money and sacrifice quality.

It would not make sense to have ones own feed formulation and not have the capability to make feeds. So the next logical step was for Arthur Perdue to authorize the building of a feedmill as part of their operations. By the year 1952 revenues were hitting the \$6 million mark and in 1950s dollars this would have made for an impressive run. By this time the company was able to deliver 2, 600, 000 broilers.

The vertical integration did not stop here. In the decade of the 1960s Perdue Farms began building its first grain receiving and storage facilities and <https://assignbuster.com/perdue-farms/>

Maryland's first soybean processing plant. But this was not enough Perdue seriously considered the idea of processing chickens. Then in 1968 the company purchased its first processing plant - Swift and Company in Salisbury.

The processing plant completed a very impressive and solid vertical integration program that allowed the company to experience maximum profit while enjoying the added benefit of reducing costs. The vertical integration program allowed for the creation of other kinds of businesses that are related to the production of agricultural and poultry products. It opened doors for them that would have been impossible if they did not embrace the idea of vertical integration early in the firm's history.

Aside from vertical integration another major move that ensured the long term success of the company was the decision to make Perdue a family owned company. This resulted in two things. First a very selective leadership development process where potential executives were handpicked by the founder and consisting mainly of people that he trusted with his life, people who were with him from the beginning.

Secondly, and probably the most significant, Arthur allowed his son to get on board and as early as 1950 Frank Perdue the only son of Arthur Perdue took over the leadership of the company. It was one of the wisest decisions Mr. Arthur ever made in the long history of the enterprise. It turned out that like his father, Frank has the same passion for excellence and he added another major ingredient into the already potent mix of hard work, fiscal responsibility, and vertical integration. To this mix he added innovation and a bit of daring to go where no one has gone before.

Innovation catapulted the company into the front of the pack and allowed them to strengthen their position as the No. 1 company that supply poultry products to major areas in the United States and even abroad. The force behind innovation is that feeling that hates mediocrity and that drive to always look for ways to improve. Frank always pushes himself and the company to reach new heights.

In 1970 the once chicken and egg farm in faraway Maryland is hatching a plan to create a primary breeding and genetic research programs. Who would have thought that a farmer turned entrepreneur whose main occupation requires taking care of poultry would venture far from his comfort zone and dabble inscience and technology? Knowing where they came from makes one appreciate much more what they have to go through in order to establishing the genetic program which by the way resulted in the development of a hybrid chicken that has more white breast meat than the typical chicken found in most supermarkets. Again not bad for a business that started small selling eggs.

Aside from a very efficient factory and taking care of the production side of the operation, Frank Perdue did not shy away from using multi-media to improve their marketing strategies. In 1971 Frank Perdue spearheaded an aggressive marketing campaign. He was living a charmed life because aside from being a very successful businessman, he was also able to move effortlessly into the world of advertising and transform himself into Perdue Farms spokesperson. Consequently he became very famous for doing the TV adverts and a significant number of Americans became very well acquainted with the Perdue brand.

Finally, the great thing about the organization is their commitment to three P's: People, Products and Profitability. And they spend enormous amounts of company resources to make good on their promise especially when it comes to their employees. To make it absolutely clear that they really are into making their employees happy they began a novel way of labeling them from employees to associates. That would surely take care of morale but aside from the fancy names Perdue Farms provided the following for the enjoyment and benefit of their workers:

1. Healthcare - their program goes beyond the basic package for they have clinics and medical personnel on duty to help employees from something mundane as muscle strain to the more complicated testing for various kinds of diseases.
2. Education- most of their employees are Hipics who cannot communicate in decent English. The company provides English-language classes to help said employees to fit in and be productive.

Blunders

Perdue Farms had everything going for them and the momentum keeps building. It was a result of starting early (founded in 1920) when it was still easier to build a company from scratch. The threat of new entrants was still very low at that time in fact there were only a few in the Maryland area going into an extensive poultry operation. If this business was started today it would have been much more difficult.

But just like the others, Perdue Farms was not immune to mistakes. Every leadership team, no matter how gifted and committed will not always be able to come up with brilliant decisions. Oftentimes their decisions would

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lead to serious blunders that would have brought the company to its knees. In the case of Perdue the crisis point was in the decade of the 1980s when Perdue Farms decided to gobble up acquisitions that looked good on paper but in the long run proved to be a very costly and ill-advised venture. In 1988 the company experienced for the first time what it felt like to be in the red.

A careful analysis will reveal that Perdue Farms bit more than it could chew, so to speak. It diversified its product line and purchased producers like Carrol's Foods, Purvis Farms, Shenandoah Valley Poultry Company. Again the acquisitions seemed to bolster the image of the company but in reality these purchases forced the organization to diversify to a point that it could no longer keep up. They lost their focus and they were heavily burdened by operations where they have no expertise to deal with. In these turbulent times the organization has to sell turkey, a product they have no prior knowledge on how to process and market cost-efficiently.

Another blunder in the making occurred in the decade of the 80s when a consulting firm - bothered perhaps by the centralized structure that is the inevitable result of having a family owned corporation - suggested a novel approach to management which is decentralization. Decentralization may have been a concept and a strategy that worked with other firms but it obviously was not the perfect fit for Perdue Farms.

The process of decentralization resulted in the further loss of focus and the duplication in terms of administrative work. This also resulted in increasing the cost of operations and pushed Perdue further into the red. At this point in their history it is safe to assume that the organization became a victim of

their own success and they were not yet ready to handle that level of growth and success. Increasing demand for product, clamor for expansion took its toll and the company went overboard in trying to address all these issues. It was painful learning experience but it was also a time for the organization to grow. They settled back to what they do best which is to focus on their core business, concentrate on efficiency of operations, improving communications throughout the company, and paying close attention to detail (Rubenson and Shipper, 2001, p. 261).

Analysis

It is now time to go in-depth in the analysis phase of this study. In this regard the popular tool to be applied in examining Perdue Farms would be the S. W. O. T. analysis which roughly stands for Strengths, Weakness, Opportunities, and Threats.

Core Competencies

The various operations within the firm can be summed up with one term: vertical integration. This simply means that management has direct control of what is going on in the farm and that the company is "...involved every step of the supply chain – from eggs and feed ingredients all the way through processing distribution and marketing" (see www.perdue.com). This integrated agribusiness operation can be further broken down into the following:

- The Perdue Pedigree – genetics research program
- Breeder Operations – supply offspring of pedigree birds to contract growers

- Hatcheries – state of the art hatcheries protecting birds from diseases and ensuring quality
- Feed Manufacturing – a high quality program that would develop Grade A feeds
- Processing and Food Production – operating food plants that adhere to strict quality standards
- Distribution and Transportation – truck fleets, dedicated cold storage, and export facilities

Another way of looking at the above is to see it as the Core Competencies of Perdue Farms. A Core Competencies are sources of competitive advantage. According to Hitt et al., there are four major criteria that can be used to determine the said competencies or strategic capabilities and these are enumerated as follows: a) Valuable Capabilities; b) Rare Capabilities; c) Costly-to-Imitate Capabilities; and d) Organized to Be Exploited (2006, slides 4-22).

Based on these criteria it can be ascertained that Perdue Farms has a lot to offer and it would be very difficult for its competitors to dislodge it from the top position. The following will examine the core competencies within the firm using the four criteria:

1. Valuable – the Perdue brand is a mark of quality. Its value is something akin to a wine aged to perfection. This means that the said brand has been around for many decades and for another competitor to copy such a long history will take some time.

2. Rare - Perdue chickens are not simply chicken bought from random suppliers and grown in some ordinary farm. The firm has its own breeding program. A basic understanding of genetics and poultry breeding techniques can tell someone that it will take years or even decades to establish a great pedigree.

3. Costly to Imitate - Aside from the breeding program there are other systems that was put in place by Perdue, developed since 1920 that would very well cost millions of dollars to copy. An example is the feed formulation, the numerous partnerships with other businesses and the complicated logistics support system that was put in place to deliver the products are very expensive to imitate.

4. Organized - Perdue Farms is an organization way ahead of its competitors in terms of appropriating structures, control systems, and reward systems that will ensure sustained capability. The education programs as well as healthcare benefits are just a few of the examples showing the depth and strength of the firm (Hitt et al., 2006, slides 4-24).

Moreover, the vertically integrated agribusiness operation is a well-oiled machine that would simply overwhelm the casual consumer. Knowledge of such a business operation would immediately assure buyers that they are dealing here with a serious organization that is committed to high quality and customer satisfaction.

Aside from their efficient operations another ace in their sleeves is their branding which resulted in a product that is widely recognizable in the U. S. and some parts of the world. They were successful in using their CEO and

main man Frank Perdue to be their spokesperson and they achieved great success doing so.

Finally, their willingness to break the mold and to think outside the box has resulted in their being the No. 1 company in the U. S. in terms of supplying poultry products. A case in point is the transformation of their all-over-the-road truck to not just become an ordinary means of transport but a high-tech transporter that would increase their efficiency. Perdue Farms have truck fleets equipped with satellite two-way communications and geographic positioning devices that would allow management to keep track of all their vehicles. This would also allow management to advise their customers the exact time that the trucks will arrive at their destination.

Assessing Weakness

It was pointed out earlier that just like any other organization Perdue Farms is not immune to rapid changes in the industry. A sudden increase in demand could very well make them lose their competitive edge because they can overreach and supply more than what is actually needed.

Add to their problem the growing demand for their product internationally and no matter how successful they will become in international markets their failure in the decade of the 1980s will continually hunt them. They will always ask themselves if they are expanding too soon. Now that globalization is the current buzzword and markets are opening up while trade barriers are going down, it would be a great challenge to the new management team led by Jim Perdue to find a way to balance supply and demand. It is truly a great challenge to remain highly competitive in an industry that keeps on changing.

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Opportunities

Now, with regards to opportunities, the company should have found out early that in the 21st century they will no longer run out of new markets to penetrate. The whole world, especially the emerging markets in Asia will provide for new challenges and marketing opportunities for the said firm. They can set their sights beyond the U. S. border and no one can blame them. New technology will allow for the previously impossible logistical hurdles. Moving products to as far as China is no longer a problem.

Threats

In every industry there is always the reality of Threats. The poultry industry is not spared this problem. There will always be the threat of diseases, a new strain of avian flu that could wipe out Perdue Farms. Although there is very little chance of this happening thanks to its state of the art facilities, management will always be on their toes in preparation for the possibility of such an event happening.

Another major threat to Perdue Farms is globalization. Globalization was considered beforehand as an opportunity so it must be made clear that there are two sides to a coin and for every opportunity there is a risk involved. The breaking down of trade barriers will result in the inevitable and that is the increasing cost of doing business in industrialized countries as compared to doing the same kind of operations in developing nations. A worst case scenario for Perdue Farms is when the time comes for them to let go of their U. S. based employees and begin a painful transition of moving their operations somewhere outside the U. S. border. There is no telling what would happen to the company when that time would come.

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Another possible threat would be the increasingly stringent environmental protection laws that must be satisfied in order to continue doing business in the U. S. The problem is of course the high operating cost that usually accompany a more sophisticated way of ensuring a more cleaner environment. This could be a breaking point for the organization if not anticipated in advance.

All of the above must be considered but there is one more thing that Perdue has to focus their energy into and it is the threat of new entrants and the threat coming from major competition. Based on the core competencies of Perdue that was mentioned earlier, competitors will have a hard time taking a huge chunk of the market share currently being enjoyed by Perdue but it is not an impossible goal. Perdue must always be on the alert concerning Cost Leadership and Differentiation. As long as the firm can sustain a line of product that is cut above the rest and then controlling operational cost to offer competitive prices then Perdue will be here to stay for a very long time.

Recommendations

Since the organization is privately owned there is a great risk that it will not be able to sustain its profitability in a rapidly changing business environment. Globalization is something that should not be easily embraced as the source of limitless opportunity but also as a source of threats.

According to Rubenson and Shipper location of processing facilities is key to continued growth and profitability, "...it currently costs about 1 and ½ cents more per pound to grow poultry on the Eastern shore versus what poultry can be grown for in Arkansas. This difference results from the cost of labor,

compliance with federal and state environmental laws, resource costs and other variables”(2001, p. 275-278).

Rubenson and Shipper’s insight was right on target when they remarked that Perdue Farms could not afford to always rely on their high quality products. The poultry business in the near future will be littered with competitors that would try to emulate the high standards used by Perdue. Sooner or later their competitors can catch up and be able to offer similar products. Then this will result in a decrease in the market share.

In the event that high quality products are saturating the market, one that could break the time would be pricing and high level of customer service. In this regard Perdue has a slight disadvantage to firms that are situated in areas where it would cost much less to produce a pound of poultry as compared to the high cost of production required to produce the same amount in Perdue.

Hitt et al., suggest four diversification strategies that will help Perdue face the challenges of the 21st century and these are 1) Sharing Activities; 2) Transferring Core Competencies; 3) Efficient Internal Capital Market Allocation; and 4) Restructuring (2006, slide 7-12). With regards to the first one, the sharing of activities is applicable when Perdue is merging with another company with related businesses. For example their acquisition of another poultry producing firm means that they can share activities to minimize costs by achieving economies of scale, increasing efficiency of utilization, and creating a much more manageable learning curve in understanding the newly acquired business.

Now, with regards to sharing activities the newly acquired business and Perdue can share the same sales force, logistics network or distribution channels to improve on efficiency and again lower cost while at the same time increasing sales (Hitt et al., 2006, slide 7-13)

In the case that Perdue will not acquire new assets, merge with another company or invest in another industry then the following can happen. In the interim Perdue will survive thanks to a very successful marketing campaign. There is a high level of name recall when it comes to Perdue products. It is simply popular compared to others. Moreover, human nature also plays an important part in their bid to stay on top. Once a person settles in on a product it requires a string of bad experience with the product or exorbitant pricing to make that customer change his or her preferences. There is a high probability that if the customer is already happy with Perdue then they will continually avail of the same product for the rest of their lives and their children too.

But a savvy manager and CEO will prepare for the unexpected. It was mentioned earlier that Perdue may have been stung by the disappointing experience in the 1980s and like their founder may be too cautious in changing their strategies. That is fine but looking at the current business landscape it is difficult to deny the fact that sometimes outsourcing is needed. There is a need to move factories to some place else where costs are low. Perdue is beginning to see the wisdom of such a move and they are beginning to do business outside the U. S. Yet they may have to do much more than just selling chicken feet to China to survive in the long run.

Going back to the fact that Perdue is a privately owned corporation there is wisdom in considering strategic partnerships. If leadership of the firm is bent on preserving tradition and not sell the company then strategic partnerships is the key. They are doing well with their contract growers where they allow other business to grow their chickens for them. They have to explore more on this one and find ways on how to spread the burden to others.

Another avenue that they can explore is to invest in other countries. By virtue of their current set-up they are not allowing funding from outside sources. They have a tight control of their finance and in fact no one really knows exactly how much they are earning. If they want to continue operating this way then that is fine. But to have more funds coming in they could begin to invest in other companies it is similar to owning a part of the business minus the problems that comes with directly managing the enterprise. In this way Perdue Farms can be ensured to be always on the black and not have a repeat of the disastrous 1980s fiasco when the company was losing money.

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