THE WALL STREET JOURNAL.

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Tyson Made Its Fortune Packing Meat. Now It Wants to Sell You Frittatas.

The nation's largest meatpacker wants to reinvent itself as a maker of prepared foods, and is struggling with meat stockpiles, low prices and tariffs

By Jacob Bunge | Photographs by Brett Deering for The Wall Street Journal

Feb. 13, 2019 11:42 a.m. ET

ROGERS, Ark.—By the time you finish reading this sentence, more than 8 pounds of honey-barbecue chicken strips will have tumbled off a production line at Tyson Foods Inc.'s TSN **-1.12%** ▼ plant here.

For 16 hours at a stretch, the stream of deep-brown strips and other products continues across Tyson's 50 U.S. plants that together disassemble 37 million chickens each week, turning them into nuggets, wings and breasts. By now, another 10.5 pounds have filled crinkly, Tyson-branded plastic bags at the line's end.

The Rogers chicken plant is part of Tyson's strategy to transform the 84-year-old meatpacking giant into a modern food company selling branded consumer goods on par with Kraft Heinz Co. or Coca-Cola Co.

John Tyson, the company's chairman and a controlling shareholder, says Tyson wants to be big in more-profitable prepared and packaged foods to distance itself from the traditional meat business's boom-and-bust cycles. America's biggest supplier of meat wants to also be known for selling packaged foods such as "Simple Scrambles"—microwavable eggs with sausage and cheese.

Mr. Tyson, 65 and the grandson of the company's founder, figures the pieces are in place for Tyson's reinvention. The company has spent $12 billion in recent years to add staple names such as Jimmy Dean sausage, the organic brand Smart Chicken—which can reap significantly higher retail prices—and plants that make prepackaged sandwiches. Under the company's namesake Tyson brand, it has branched out from raw chicken cuts to fully prepared heat-and-eat meals such as Tomato Herb Chicken & Vegetable Pasta Dinner Kits.

How's the transformation going? Amid an historic meat glut, the company's shares are worth $4.9 billion less than they were a year ago—and are still valued like those of a meatpacker pumping out shrink-wrapped packs of pork chops and chicken breasts.

"That's part of the struggle that goes on—what is Tyson Foods today?" said Mr. Tyson in an interview.

Investors say the initiatives aren't yet enough to counteract the steep challenges facing the poultry and livestock slaughtering and processing operations that have been the company's core since Mr. Tyson's grandfather started delivering chickens by truck in 1935.

Record red meat and poultry production nationwide is pushing down prices and eroding Tyson's meat-processing profit margins. Tariffs and trade barriers to U.S. meat

John Tyson, the company's chairman, on Tuesday.

have further dented prices and built up backlogs, while transport and labor costs have climbed. Tyson last week reported flat sales and lower prices in the latest quarter.

The packaged-foods business is itself struggling with consumers gravitating toward nimbler upstart brands and demanding natural ingredients and healthier recipes.

Prepared foods, not including those under the Tyson chicken brand, now make up more than one-fifth of Tyson's $40 billion in annual sales, about double what they represented a decade ago. The unit accounts for nearly one-third of Tyson's income, with a higher profit margin than the meat-processing businesses. Last year it delivered a record profit.

Five years of bumper crops and growing meat exports encouraged cattle ranchers, hog farmers and chicken producers to expand, driving U.S. production of those meats to record levels last year. Meat companies, including Tyson, are building new processing plants that will expand U.S. pork and chicken production capacity by 10% and 8.4%, respectively, over the next three years, analysts say.

Since production outpaces American consumption, the industry relies on exports. Trade disputes with top meat-buying countries such as Mexico and China have pushed down prices and slowed export growth. Last fall, meat stockpiles nationwide hit a record 2.6 billion pounds, according to the U.S. Department of Agriculture. Analysts expect pressure on prices to continue this year.

Those forces are making nearly all kinds of meat inexpensive, pitting red meat and poultry against each other in grocery store meat cases and restaurants. The combination of high meat supplies, low prices and tariffs in major export markets have cut into profit margins for meat processors across the board, including Tyson, Pilgrim's Pride Corp. and Hormel Foods Corp.

Mark Finn, a portfolio manager at T. Rowe Price Group, Tyson's largest nonfamily shareholder, said while he believes in Tyson's transition toward a consumer packaged-goods company, the company's struggles in recent months were a "pretty big pothole." The company needs to further build its branded foods business and insulate itself, he said: "There's still more to be done."

The Springdale, Ark., company produces 1 in every 5 pounds of the total beef, pork and chicken produced in the country each day, employing about 130,000 people across more than 120 facilities. Tyson makes McNuggets for McDonald's , ground beef for

Research and development technician Kyle McKinnis, left, and principal food scientist Dale Altemeier work on a breaded chicken product in the Tyson test kitchen.

Walmart Inc. and is the top supplier for pepperoni for pizzas sold in the U.S. No other U.S. company produces more chickens, or slaughters more cattle.

For years, Mr. Tyson, whose family maintains control through supervoting shares, has wanted more. In a 2001 interview with The Wall Street Journal, fresh off a $2.7 billion deal for beef and pork giant IBP Inc., Mr. Tyson said he dreamed of turning his family's company into the " Procter & Gamble Co. of the meat case," offering shoppers a cartful of nationally known, prepared foods that use its meats.

After acquiring IBP, Tyson invested for years to build its own brands but found that, outside of chicken, it couldn't match well-known names such as Hillshire Farm lunch meat and Ball Park hot dogs.

In 2014, Jimmy Dean parent Hillshire Brands came up for sale. Tyson's $7.7 billion bid beat out rival chicken giant Pilgrim's Pride. The deal brought a stable of sausages, along with takeoffs on the theme, such as pancake-wrapped sausages on a stick. Aidells and Ball Park were among other brands in the deal.

“The day we decided to buy Hillshire was the day we decided to change,” Mr. Tyson said.

The acquisition—Tyson’s most expensive ever—also brought aboard executives attuned to consumer trends. Tyson added managers from Fortune 100 companies, including Boeing Co. and HP Inc., who replaced some meat-processing officials who led Tyson for decades. The newcomers brought experience managing brands, understanding consumers, developing new products and building new technology tools, areas Tyson deemed central to its future.

A chief sustainability officer, a newly created position, began working to shift Tyson’s image among environmental groups, who for years have called on the company to curb water pollution and improve animal welfare.

After Jay Ford of the Chesapeake Bay Foundation, a Maryland-based conservation group, delivered a proposal on water use at Tyson’s 2018 shareholder meeting, he said Mr. Tyson approached to discuss it further. “He was very positive,” Mr. Ford said, and Tyson since then has said it would follow some of the group’s recommendations, such as drawing water from a shallower aquifer. “We’re hearing the right things from Tyson, but we’re waiting for those things to become reality,” Mr. Ford said.

Shifting consumer tastes have created hurdles for other packaged-food giants, such as Campbell Soup Co. and Kellogg Co. The S&P 500 packaged foods and meat index has declined 6% in the past three years, compared with a 47% gain for the S&P 500. Sally Grimes, Tyson’s president of prepared foods, said the desire for high-protein meals are helping Tyson’s meat products outgrow sales of other packaged foods.

Still, the meat business remains Tyson’s biggest challenge. In 2018 a flood of cheap beef, fueled by enlarged cattle herds, spurred a summer of “burger wars,” meat industry officials said. McDonald’s launched a hamburger-heavy value meal and widely promoted its new fresh beef patties. In September, Wendy’s gave away free hamburgers to customers who bought food through the chain’s mobile app. The

International House of Pancakes briefly renamed itself the International House of Burgers, a stunt that quadrupled the chain's burger sales, IHOP officials said.

The shift helped lift the beef business at Tyson, which supplies McDonald's and others, to a record year, but it hurt Tyson's typically more-profitable chicken division as increased burger sales ate into demand for chicken.

For the first time in years, Tyson's breast meat supply outgrew orders from restaurants and grocery chains, forcing the company to sell valuable breast meat at cut rates. "We have never seen this in our lifetime," said Jon Kathol, Tyson's head of investor relations.

Tyson's fiscal 2018 chicken profits fell to the lowest level in four years. In November, Tyson trimmed its 2019 overall sales forecast by $1 billion to $41 billion, warning low meat prices would likely persist. This month, Tyson further reduced its projected chicken profitability.

Investors and analysts said the investment in brands and packaged foods hasn't insulated Tyson's business from these commodity-market swings. "We've seen it stress-tested, when things go wrong, and it doesn't provide the cushion we would necessarily believe," said Jeremy Scott, analyst with Mizuho Securities. Tyson needs to improve how it anticipates and responds to changes in meat demand, he said.

In September, Tyson CEO Tom Hayes stepped down, citing unspecified personal reasons. Tyson replaced him with Noel White, a 35-year veteran of Tyson's beef, pork and poultry businesses. The move soothed some investors who had worried that Mr. Hayes, a former Hillshire executive, didn't fully grasp Tyson's sprawling meat operations.

Some hopeful signs have emerged recently for chicken demand. Burger King in October began selling 10 chicken nuggets for $1, and McDonald's is testing a new chicken sandwich—both chains are supplied by Tyson. Tyson is also developing more profitable beef and pork products, such as packaged cuts for grocery stores.

Tyson CEO Noel White, center, in the headquarters' kitchen on Tuesday.

The company is also trying to improve its ability for forecast meat demand. In downtown Springdale, a yellow-and-red sign depicts a hatching chick atop a storefront that decades ago housed Tyson's Feed & Hatchery Inc., when it was still a small family business. Revamped and expanded with Silicon Valley flourishes including Ping-Pong tables and bike racks that fold out of the wall, the building now houses hundreds of workers for Tyson's technology division. Among the group's projects: developing artificial intelligence to help Tyson better predict the future.

Scott Spradley, who left HP in 2017 to become Tyson's chief technology officer, said company data scientists are crunching numbers on major U.S. metropolitan areas. By analyzing historic meat consumption alongside demographic shifts, the number of residents moving in and out, and the frequency of birthdays and baseball games, Mr. Spradley said Tyson is building computer models that will help plan production and sales for its meat business.

The effort aims to find patterns in data that Tyson's human economists and current projections might not see. A recent test applying the model to what happened in the past proved surprisingly accurate, said Mr. White, the CEO, and the company has started incorporating its projections into long-range planning.

Deep data dives helped steer Tyson toward what executives say will be one of its biggest new product launches: plant-based replacements for traditional meat, which Ms. Grimes said Tyson plans to launch this year. Whether for vegetarians or just diners who want a meat-free option, “We want to have choices for those consumers,” she said.

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