

CASE 20



**Perdue Farms, Inc.
(1995)**

This case was prepared by George C. Rubenson and Frank M. Shipper of the Franklin P. Perdue School of Business at Salisbury State University and Jean M. Hanebury of the College of Business Administration at Texas A&M University, Corpus Christi.

BACKGROUND/COMPANY HISTORY

.....

I have a theory that you can tell the difference between those who have inherited a fortune and those who have made a fortune. Those who have made their own fortune forget not where they came from and are less likely to lose touch with the common man [Bill Sterling, “Just Browsin” column, *Eastern Shore News*, March 2, 1988].

Acknowledgments: The authors are indebted to Frank Perdue, Jim Perdue, and the numerous associates at Perdue Farms, Inc., who generously shared their time and information about the company. In addition, the authors would like to thank the anonymous librarians who routinely review area newspapers and file articles about the poultry industry—the most important industry on the DelMarVa Peninsula. Without their assistance, this case would not have been possible. Reprinted by permission of the authors.

In 1917, Arthur W. Perdue, a Railway Express agent and descendant of a French Huguenot family named Perdeaux, bought 50 leghorn chickens for \$5 and began selling table eggs near the small town of Salisbury, Maryland. A region immortalized in James Michener’s *Chesapeake*, it is alternately known as “the Eastern Shore” or the “DelMarVa Peninsula” and includes parts of *Delaware, Maryland and Virginia*.

Initially, the business amounted to little more than a farm wife’s chore for “pin money,” raising a few “biddies” in a cardboard box behind the wood stove in the kitchen until they were old enough to fend for themselves in the barnyard. In 1920, however, when Railway Express asked “Mr. Arthur” to move to a station away from the Eastern Shore, at age 36 he quit his job as Salisbury’s Railway Express agent and entered the egg business full time. His only child, Franklin Parsons Perdue, was born that same year.

"Mr. Arthur" soon expanded his egg market and began shipments to New York. Practicing small economies such as mixing his own chicken feed and using leather from his old shoes to make hinges for his chicken coops, he stayed out of debt and prospered. He tried to add a new chicken coop every year. By the time young Frank was 10, he had 50 chickens or so of his own to look after, earning money from their eggs. He worked along with his parents, not always enthusiastically, to feed the chickens, clean the coops, dig the cesspools, and gather and grade eggs. A shy, introverted country boy, he went for 5 years to a one-room school, eventually graduated from Wicomico High School, and attended the State Teachers College in Salisbury for 2 years before returning to the farm in 1939 to work full time with his father.

By 1940, it was obvious to father and son that the future lay in selling chickens, not eggs. But the Perdues made the shift to selling broilers only after careful attention to every detail—a standard Perdue procedure in the years to come. In 1944, "Mr. Arthur" made his son Frank a full partner in what was then A. W. Perdue and Son, Inc., a firm already known for quality products and fair dealing in a toughly competitive business. In 1950, Frank took over leadership of Perdue Farms, a company with 40 employees. By 1952, revenues were \$6 million from the sale of 2.6 million broilers.

By 1967, annual sales had increased to about \$35 million but it was becoming increasingly clear that additional profits lay in processing chickens. Frank recalled in an interview for *Business Week* (September 15, 1972) "... processors were paying us 10 cents a live pound for what cost us 14 cents to produce. Suddenly, processors were making as much as 7 cents a pound."

A cautious, conservative planner, Arthur Perdue had not been eager for expansion, and Frank Perdue himself was reluctant to enter poultry processing. But economic forces dictated the move, and in 1968, Perdue Farms became a vertically integrated operation, hatching eggs, delivering the chicks to contract growers, buying grain, supplying the feed and litter, and finally, processing the broilers and shipping them to market.

The company bought its first plant in 1968, a Swift and Company operation in Salisbury, renovated it, and equipped it with machines capable of processing 14,000 broilers per hour. Computers were soon employed to devise feeding formulas for

each stage of growth so that birds reached their growth potential sooner. Geneticists were hired to breed larger-breasted chickens, veterinarians were put on staff to keep the flocks healthy, and nutritionists handled the feed formulations to achieve the best feed conversion.

From the beginning, Frank Perdue refused to permit his broilers to be frozen for shipping, a process that resulted in unappetizing black bones and loss of flavor and moistness when cooked. Instead, Perdue chickens were (and some still are) shipped to market packed in ice, justifying the company's advertisements at that time that it sold only "fresh, young broilers." However, this policy also limited the company's market to those locations which could be serviced overnight from the Eastern Shore of Maryland. Thus Perdue chose for its primary markets the densely populated towns and cities of the East Coast, particularly New York City, which consumes more Perdue chickens than all other brands combined.

During the 1970s, the firm entered the Baltimore, Philadelphia, Boston, and Providence markets. Facilities were expanded rapidly to include a new broiler processing plant and protein conversion plant in Accomac, Virginia, a processing plant in Lewiston, North Carolina, a hatchery in Murfreesboro, North Carolina, and several Swift and Company facilities including a processing plant in Georgetown, Delaware, a feedmill in Bridgeville, Delaware, and a feedmill in Elkin, North Carolina.

In 1977, "Mr. Arthur" died at the age of 91, leaving behind a company with annual sales of nearly \$200 million, an average annual growth rate of 17% compared to an industry average of 1% a year, the potential for processing 78,000 broilers per hour, and annual production of nearly 350 million pounds of poultry per year. Frank Perdue, who says without a hint of self-deprecation that "I am a B-minus student. I know how smart I am. I know a B-minus is not as good as an A," said of his father simply, "I learned everything from him."

Stew Leonard, owner of a huge supermarket in Norwalk, Connecticut, and one of Perdue's top customers, describes Frank Perdue as "What you see is what you get. If you ask him a question, you will get an answer." Perdue disapproves of the presence of a union between himself and his associates and adds: "The absence of unions makes for a better relationship with our associates. If we treat our associates right, I don't think we will have a union." On

conglomerates, he states: "Diversification is the most dangerous word in the English language." His business philosophy is: "I'm interested in being the best rather than the biggest. Expansion is OK if it has a positive effect on product quality. I'll do nothing that detracts from product quality."

Frank Perdue is known for having a temper. He is as hard on himself, however, as he is on others, readily admitting his shortcomings and even his mistakes. For example, in the 1970s he apparently briefly discussed using the influence of some unsavory characters to help alleviate union pressure. When an investigative report in the late 1980s asked him about this instance, he admitted that it was a mistake, saying "... it was probably the dumbest thing I ever did."

In 1981, Frank Perdue was in Massachusetts for his induction into the Babson College Academy of Distinguished Entrepreneurs, an award established in 1978 to recognize the spirit of free enterprise and business leadership. Babson College President Ralph Z. Sorenson inducted Perdue into the academy, which, at that time, numbered 18 men and women from four continents. Perdue had the following to say to the college students:

There are none, nor will there ever be, easy steps for the entrepreneur. Nothing, absolutely nothing, replaces the willingness to work earnestly, intelligently toward a goal. You have to be willing to pay the price. You have to have an insatiable appetite for detail, have to be willing to accept constructive criticism, to ask questions, to be fiscally responsible, to surround yourself with good people and most of all, to listen.

The early 1980s proved to be a period of further growth as Perdue diversified and broadened its market. New marketing areas included Washington, D.C., Richmond, Virginia, and Norfolk, Virginia. Additional facilities were opened in Cofield, Kenly, Halifax, Robbins, and Robersonville, North Carolina. The firm broadened its line to include value-added products such as Oven Stuffer roasters and Perdue Done It!, a new brand of fresh, prepared chicken products featuring cooked chicken breast nuggets, cutlets, and tenders. James A. (Jim) Perdue, Frank's only son, joined the company as a management trainee in 1983.

The latter 1980s also tested the mettle of the firm, however. Following a period of considerable

expansion and concentric diversification, a consulting firm was brought in to recommend ways to cope with the new complexity. Believing that the span of control was too broad, the consulting firm recommended that strategic business units, responsible for their own operations, be formed. In other words, the firm should decentralize.

Soon after, the chicken market leveled off and eventually began to decline. At one point the firm was losing as much as \$1 million a week, and in 1988 Perdue Farms experienced its first year in the red. Unfortunately, the decentralization had created duplication of duties and enormous administrative costs. MIS costs, for example, had tripled. The firm's rapid plunge into turkeys and other food processing, where it had little experience, contributed to the losses. Waste and inefficiency had permeated the company. Characteristically, Frank Perdue took the firm back to basics, concentrating on efficiency of operations, improving communications throughout the company, and paying close attention to detail.

On June 2, 1989, Frank celebrated 50 years with Perdue Farms, Inc. At a morning reception in downtown Salisbury, the governor of Maryland proclaimed it "Frank Perdue Day." The governors of Delaware and Virginia did the same.

The 1990s have been dominated by market expansion to North Carolina, Atlanta, Georgia, Pittsburgh, Pennsylvania, Cleveland, Ohio, Chicago, Illinois, and Florida. New product lines have included fresh ground chicken, fresh ground turkey, sweet Italian turkey sausage, turkey breakfast sausage, fun-shaped chicken breast nuggets in star and drumstick shapes, and BBQ and oven-roasted chicken parts in the Perdue Done It! line. A new Fit 'n Easy label was introduced as part of a nutrition campaign using skinless, boneless chicken and turkey products. By 1994, revenues had increased to about \$1.5 billion, Frank Perdue was chairman of the executive committee and Jim Perdue was chairman of the board.

In January 1995, Perdue Farms became the third largest producer in the broiler industry when it bought Showell Farms, Inc., of Showell, Maryland, the twelfth largest producer in the United States with about 8000 employees and revenues of approximately \$550,000.

Sitting in the small, unpretentious office that had been his dad's for 40 years, Jim looked out the window at the house where he had grown up, the

broiler houses Frank built in the 1940s, his grandfather's homestead across the road where Frank was born, and a modern hatchery. "Dad would come home for dinner and then come back here and work into the early hours of the morning. There's a fold-out cot behind that credenza. He got by on 3 or 4 hours of sleep a night."

MISSION STATEMENT AND STATEMENT OF VALUES

From the beginning, "Mr. Arthur's" motto had been to "... create a quality product, be aware of your customers, deal fairly with people, and work hard, work hard, work hard." In a speech in September 1991 to the firm's lenders, accountants, and Perdue associates, Frank reiterated these values, saying

If you were to ask me what was the biggest factor in whatever success we have enjoyed, I would answer that it was not technology, or economic resources, or organizational structure. It ... has been our conscious decision that, in order to be successful, we must have a sound set of beliefs on which we premise all our policies and actions. ... Central to these beliefs is our emphasis on quality. ... Quality is no accident. It is the one absolutely necessary ingredient of all the most successful companies in the world.

The centrality of quality to the firm is featured in its mission statement and its statement of values. To ensure that all associates know what the company's mission, quality policy, values, and annual goals are, managers receive a fold-up, wallet-sized card with them imprinted on it (see Exhibit A).

SOCIAL RESPONSIBILITY

To realize its corporate statement of values, Perdue Farms works hard to be a good corporate citizen. Two areas in which this is especially clear are its code of ethics and its efforts to minimize the environmental damage it causes.

Code of Ethics

Perdue Farms has taken the somewhat unusual step of setting forth explicitly the ethical standards

it expects all associates to follow. Specifically, the Code of Ethics calls on associates to conduct every aspect of business in the full spirit of honest and lawful behavior. Further, all salaried associates and certain hourly associates are required to sign a statement acknowledging that they understand the code and are prepared to comply with it. Associates are expected to report to their supervisor dishonest or illegal activities as well as possible violations of the code. If the supervisor does not provide a satisfactory response, the employee is expected to contact either the vice president for human resources or the vice president of their division. The code notes that any Perdue manager who initiates or encourages reprisal against any person who reports a violation commits a serious violation of the code.

Minimizing Environmental Damage

Historically, chicken processing has been the focus of special-interest groups whose interests range from animal rights to repetitive-motion disorders to environmental causes. Perdue Farms has accepted the challenge of striving to maintain an environmentally friendly workplace as a goal that requires the commitment of all its associates, from Frank Perdue down. Frank Perdue states it best: "We know that we must be good neighbors environmentally. We have an obligation not to pollute, to police ourselves, and to be better than EPA requires us to be."

For example, over the years, the industry had explored many alternative ways of disposing of dead birds. Perdue research provided the solution—small composters on each farm. Using this approach, dead birds are reduced to an end product that resembles soil in a matter of a few days. This has become a major environmental activity. Another environmental challenge is the disposal of hatchery wastes. Historically, manure and unhatched eggs that make up these wastes were shipped to a landfill. Perdue produces about 10 tons of this waste per day. However, Perdue has reduced the waste by 50% by selling the liquid fraction to a pet food processor who cooks it for protein. The other 50% is recycled through a rendering process. In 1990, Perdue spent \$4.2 million to construct a state-of-the-art waste water treatment facility at its Accomac, Virginia, plant. This facility uses forced hot air heated to 120°F to cause

EXHIBIT A

.....
Perdue: Fiscal Year 1994

Mission Statement

Our mission is to provide the highest-quality poultry and poultry-related products to retail and food service customers.

We want to be the recognized industry leader in quality and service, providing more than expected for our customers, associates, and owners.

We will accomplish this by maintaining a tradition of pride in our products, growth through innovation, integrity in the management of our business, and commitment to Team Management and the Quality Improvement Process.

Quality Policy

We shall produce products and provide services at all times which meet or exceed the expectations of our customers.

We shall not be content to be of equal quality to our competitors.

Our commitment is to be increasingly superior.

Contribution to quality is a responsibility shared by everyone in the Perdue organization.

Statement of Values

Our success as a company, and as individuals working at Perdue, depend upon:

- Meeting customer needs with the best-quality, innovative food and food-related products and services.
- Associates being team members in the business and having opportunities to influence, make contributions, and reach their full potential.
- Working together as business partners by implementing the principles of the QIP so that mutual respect, trust, and a commitment to being the best are shared among associates, customers, producers, and suppliers.
- Achieving the long-term goals of the company and providing economic stability and a rewarding future for all associates through well-planned, market-driven growth.

- Being the best in our industry in profitability as a low-cost producer, realizing that our customers won't pay for our inefficiencies.
- Staying ahead of the competition by investing our profits to provide a safe work environment; to pay competitive wages; to maintain up-to-date facilities, equipment, and processes; and to create challenging opportunities for associates.
- Serving the communities in which we do business with resources, time, and the creative energies of our associates.

FY 1994 Company Goals

1. **PEOPLE**—Provide a safe, secure, and productive work environment.
 - Reduce OSHA recordable incidents by 12%
 - Reduce per capita workers' compensation by 28%
 - Implement an associates satisfaction survey process
 - Provide an annual performance evaluation for all associates.
2. **PRODUCTS**—Provide the highest-quality products and services at competitive costs.
 - Develop an improved measurement of consumer satisfaction
 - Improve the "Customer Service Satisfaction Index"
 - Improve our quality spread over competition
 - Consistently achieve a plant weighted ranking score for product quality of 212 points
 - Increase sales from new products
3. **PROFITABILITY**—Lead the industry in profitability.
 - Achieve a 10% ROAE
 - Broiler Agrimetrics Index to be equal to the Southeast Best Eight Average
 - Turkey Agrimetrics Index to be equal to the Best Eight National Average
 - Increase market share by growing at a rate which exceeds the industry.

the microbes to digest all traces of ammonia, even during the cold winter months. In April 1993, the company took a major step with the creation of its Environmental Steering Committee. Its mission is "... to provide all Perdue Farms work sites with vision, direction, and leadership so that they can be good corporate citizens from an environmental perspective today and in the future." The committee oversees how the company is doing in such environmentally sensitive areas as waste water, storm water, hazardous waste, solid waste, recycling, biosolids, and human health and safety.

Jim Perdue sums it up as follows: "... we must not only comply with environmental laws as they exist today, but look to the future to make sure we don't have any surprises. We must make sure our policy statement is real and that there's something behind it and that we do what we say we're going to do."

MARKETING

In the early days, chicken was sold to groceries as a commodity; that is, producers sold it in bulk, and butchers cut and wrapped it. The consumer had no idea what company grew the chicken. Frank Perdue was convinced that higher profits could be made if Perdue's products were premium quality so that they could be sold at a premium price. However, the only way the premium quality concept would work was if consumers asked for it by name—and that meant the product must be differentiated and "branded" to identify what the premium qualities are—hence the emphasis over the years on superior quality, a higher meat-to-bone ratio, and a yellow skin (the result of mixing marigold petals in the feed), which is an indicator of bird health.

In 1968, Perdue spent \$40,000 on radio advertising. In 1969, the company spent \$80,000 on radio, and in 1970, it spent \$160,000, split 50-50 between radio and television. The advertising agency had recommended against television advertising, but the combination worked. TV ads increased sales, and Frank Perdue decided that the old agency he was dealing with did not match one of the basic Perdue tenets: "The people you deal with should be as good at what they do as you are at what you do."

This decision set of a storm of activity on

Frank's part. In order to select a new ad agency, Frank studied intensively and personally learned more about advertising than any poultry man before him. He began a 10-week immersion in the theory and practice of advertising. He read books and papers on advertising. He talked to sales managers of every newspaper and radio and television station in the New York City area, consulted experts, and interviewed 48 ad agencies. On April 2, 1971, Perdue Farms selected Scali, McCabe, Sloves as its new advertising agency. As the agency tried to figure out how to successfully "brand" a chicken—something that had never been done—it realized that Frank Perdue was their greatest ally. "He looked a little like a chicken himself, and he sounded a little like one, and he squawked a lot!" Ed McCabe, partner and chief copywriter of the firm, decided that Frank Perdue should be the firm's spokesperson. Initially, Frank resisted. In the end, however, he accepted the role, and the campaign based on "It takes a tough man to make a tender chicken" was born. Frank set Perdue Farms apart by educating consumers about chicken quality. The process catapulted Perdue Farms into the ranks of the top poultry producers in the country.

The firm's very first television commercial showed Frank at a picnic in the Salisbury City Park saying

A chicken is what it eats. . . . And my chickens eat better than people do. . . . I store my own grain and mix my own feed. . . . And give my Perdue chickens nothing but pure well water to drink. . . . That's why my chickens always have that healthy golden yellow color. . . . If you want to eat as good as my chickens, you'll just have to eat my chickens. . . . Mmmm, that's really good!"

Additional ads, touting superior quality and more breast meat, read as follows:

Government standards would allow me to call this a grade A chicken . . . but my standards wouldn't. This chicken is skinny. . . . It has scrapes and hairs. . . . The fact is, my graders reject 30% of the chickens government inspectors accept as grade A. . . . That's why it pays to insist on a chicken with my name on it. . . . If you're not completely satisfied, write me and I'll give you your money back. . . . Who do you write in Washington? . . . What do they know about chickens?

Never go into a store and just ask for a pound of chicken breasts. . . . Because you could be cheating yourself out of some meat. . . . Here's an ordinary one-pound chicken breast, and here's a one-pound breast of mine. . . . They weigh the same. But as you can see, mine has more meat, and theirs has more bone. I breed the broadest breasted, meatiest chicken you can buy. . . . So don't buy a chicken breast by the pound. . . . Buy them by the name . . . and get an extra bite in every breast.

The ads paid off. In 1968, Perdue Farms held about 3% of the New York market. By 1972, one out of every six chickens eaten in New York was a Perdue chicken. Fifty-one percent of New Yorkers recognized the label. Scali, McCabe, Sloves credited Frank Perdue's "believability" for the success of the program. "This was advertising in which Perdue had a personality that lent credibility to the product." Today, 50% of the chickens consumed in New York are Perdue.

Frank had his own view. As he told a Rotary audience in Charlotte, North Carolina, in March 1989, ". . . the product met the promise of the advertising and was far superior to the competition. Two great sayings tell it all: 'nothing will destroy a poor product as quickly as good advertising' and 'a gifted product is mightier than a gifted pen!'"

Today, the Perdue marketing function is unusually sophisticated. Its responsibilities include deciding (1) how many chickens and turkeys to grow, (2) what the advertising and promotion pieces should look like, where they should run, and how much the company can afford, and (3) which new products the company will pursue. The marketing plan is derived from the company's 5-year business plan and includes goals concerning volume, return on sales, market share, and profitability. The internal marketing department is helped by various service agencies, including

- Lowe & Partners/SMS—advertising campaigns, media buys
- R. C. Auletta & Co.—public relations, company image
- Gertsman & Meyers—packaging design
- Group Williams—consumer promotional programs

- Various research companies for focus groups, telephone surveys, and in-home use tests

OPERATIONS

Two words sum up the Perdue approach to operations—*quality* and *efficiency*—with emphasis on the first over the latter. Perdue more than most companies represents the total quality management (TQM) slogan: "Quality, a journey without end." Some of the key events are listed in Exhibit B. The pursuit of quality began with Arthur Perdue in 1924 when he purchased breeding roosters from Texas for the princely sum of \$25 each. For comparison, typical wages in 1925 were \$1 for a 10-hour workday. Frank Perdue's own pursuit of quality is legendary. One story about his pursuit of quality was told in 1968 by Ellis Wainwright, the State of Maryland grading inspector, during startup operations at Perdue's first processing plant. Frank had told Ellis that the standards that he wanted were higher than the government grade A standard. The first 2 days had been pretty much disastrous. On the third day, as Wainwright recalls,

We graded all morning, and I found only five boxes that passed what I took to be Frank's standards. The rest had the yellow skin color knocked off by the picking machines. I was afraid Frank was going to raise Cain that I had accepted so few. Then Frank came through and rejected half of those.

To ensure that Perdue continues to lead the industry in quality, it buys about 2000 pounds of competitors' products a week. Inspection associates grade these products, and the information is shared with the highest levels of management. In addition, the company's quality policy is displayed at all locations and taught to all associates in quality training (see Exhibit A).

Perdue insists that nothing artificial be fed or injected into its birds. The company will not take any shortcuts in pursuit of the perfect chicken. A chemical- and steroid-free diet is fed to the chickens. Young chickens are vaccinated against disease. Selective breeding is used to improve the quality of the chickens sold. Chickens are bred to yield more breast meat because that is what the consumer wants.

EXHIBIT B**Milestones in the Quality Improvement Process at Perdue Farms**

1924	Arthur Perdue buys leghorn roosters for \$25.
1950s	Adopts the company logo of a chick under a magnifying glass.
1984	Frank Perdue attends Philip Crosby's Quality College.
1985	Perdue recognized for its pursuit of quality in <i>A Passion for Excellence</i> . 200 Perdue Managers attend Quality College. Adopted the Quality Improvement Process (QIP).
1986	Established Corrective Action Teams (CATs).
1987	Established Quality Training for all associates. Implemented Error Cause Removal Process (ECR).
1988	Steering Committee formed.
1989	First Annual Quality Conference held. Implemented Team Management.
1990	Second Annual Quality Conference held. Codified Values and Corporate Mission.
1991	Third Annual Quality Conference held. Customer Satisfaction defined.
1992	Fourth Annual Quality Conference held. "How to" implement Customer Satisfaction explained for team leaders and QITs.

Efficiency is improved through management of details. As a vertically integrated producer of chickens, Perdue manages every detail, including breeding and hatching its own eggs, selecting growers, building Perdue-engineered chicken houses, formulating and manufacturing its own feed, overseeing the care and feeding, operating its own processing plants, distributing via its own trucking fleet, and marketing. Improvements are measured in fractional cents per pound. Nothing goes to waste. The feet that used to be thrown away are now processed and sold in the Orient as a bar room delicacy.

Frank's knowledge of details is also legendary. He not only impresses people in the poultry industry but those in other industries as well. At the end of one day the managers and engineers of a new Grumman plant in Salisbury, Maryland, were reviewing their progress. Through the door, unannounced came Frank Perdue. The Grumman managers proceeded to give Frank a tour of the plant. One machine was an ink-jet printer that labeled parts as they passed. Frank said he believed he had some of those in his plants. He paused for a minute, and then he asked them if it clogged often. They responded yes. Frank exclaimed excitedly, "I

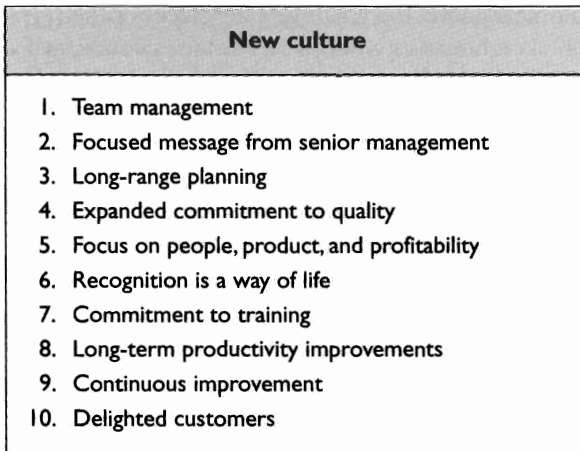
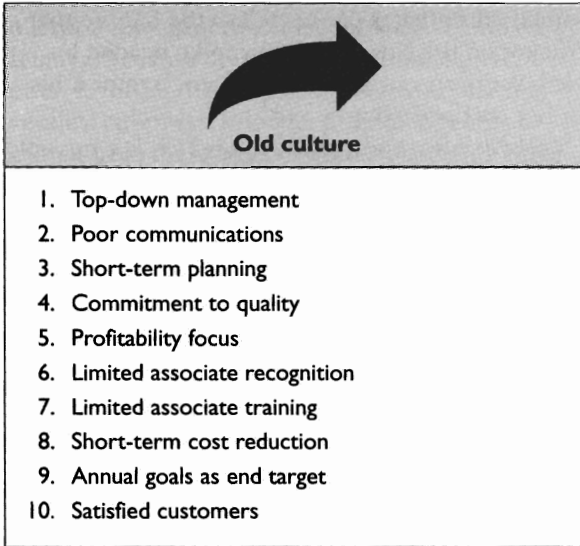
am sure that I got some of those!" To ensure that this attention to detail pays off, eight measurable items—hatchability, turnover, feed conversion, livability, yield, birds per worker-hour, utilization, and grade—are tracked.

Frank Perdue credits much of his success to listening to others. He agrees with Tom Peters that "nobody knows a person's 20 square feet better than the person who works here." To facilitate the transmission of ideas through the organization, it is undergoing a cultural transformation beginning with Frank (Exhibit C). He describes the transition from the old to the new culture and himself as follows:

... we also learned that *loud and noisy* were worth a lot more than mugs and pens. What I mean by this is, we used to spend a lot of time calling companies to get trinkets as gifts. Gradually, we learned that money and trinkets weren't what really motivated people. We learned that when a man or woman on the line is going all out to do a good job, that he or she doesn't care that much about a trinket of some sort; what they really want is for the manager to get up from behind his desk, walk over to them and, in

EXHIBIT C

Perdue Farms, Inc., Cultural Transformation



front of their peers, give them a hearty and sincere "thank you."

When we give recognition, now, we do it when there's an audience and lots of peers can see. This is, I can tell you, a lot more motivating than the "kick in the butt," that was part of the old culture—and *I was the most guilty!*

Changing the behavioral pattern from writing up people who have done something wrong to recognizing people for doing their job well has not been without some setbacks. For example, the

company started what it calls the "Good Egg Award," which is good for a free lunch. Managers in the Salisbury plan were all trained and asked to distribute the awards by "catching" someone doing a good job. When the program manager checked with the cafeteria the following week to see how many had been claimed, the answer was none. A meeting of the managers was called to see how many had been handed out. The answer was none. When the managers were asked what they had done with their award certificates, the majority replied they were in their shirt pocket. A goal was set for all managers to hand out five a week.

The following week, the program manager still found that very few were being turned in for a free lunch. When employees were asked what they had done with their awards, they replied that they had framed them and hung them up on walls at home or put them in trophy cases. The program was changed again. Now the "Good Egg Award" consists of both a certificate and a ticket for a free lunch.

Perdue also has a beneficial suggestion program that it calls "Error Cause Removal." It averages better than one submission per year per three employees. Although that is much less than the 22 per employee per year in Japan, it is significantly better than the national average in the United States of one per year per five employees. As Frank has said, "We're 'one up' . . . because with the help of the Quality Improvement Process and the help of our associates, we have *thousands* of 'better minds' helping us."

MANAGEMENT INFORMATION SYSTEMS (MIS)

In 1989, Perdue Farms employed 118 IS people who spent 146 hours per week on IS maintenance—"fix it"—jobs. Today, the entire department has been reduced to 50 associates who spend only 52 hours per week in "fix it" and 94 percent of their time building new systems or re-engineering old ones. Even better, a 6-year backlog of projects has been eliminated, and the average "build it" cost for a project has dropped from \$1950 to \$568—an overall 300% increase in efficiency.

According to Don Taylor, director of MIS, this is the payoff from a significant management re-orientation. A key philosophy is that a "fix it" mentality is counterproductive. The goal is to

determine the root cause of the problem and re-engineer the program to eliminate future problems.

Developer-user partnerships—including a monthly payback system—were developed with five functional groups: sales and marketing, finance and human resources, logistics, quality assurance, and fresh poultry and plant systems. Each has an assigned number of IS hours per month and defines its own priorities, permitting it to function as a customer.

In addition, a set of critical success factors (CSFs) was developed. These include (1) automation is never the first step in a project; it occurs only after superfluous business processes are eliminated and necessary ones simplified; (2) senior management sponsorship—the vice president for the business unit—must sponsor major projects in their area; (3) limited size, duration, and scope; IS has found that small projects have more success and a cumulative bigger payoff than big ones, and all major projects are broken into 3- to 6-month segments with separate deliverables and benefits; (4) precise definition of requirements—the team must determine up front exactly what the project will accomplish; and (5) commitment of both the IS staff and the customer to work as a team.

Perdue considers IS key to the operation of its business. For example, IS developed a customer ordering system for the centralized sales office (CSO). This system automated key business processes that link Perdue with its customers. The CSO includes 13 applications including order entry, product transfers, sales allocations, production scheduling, and credit management.

When ordering, the Perdue salesperson negotiates the specifics of the sale directly with the buyer in the grocery chain. Next, the salesperson sends the request to a dispatcher who determines where the various products are located and designates a

specific truck to make the required pickups and delivery, all within the designated 1-hour delivery window that has been granted by the grocery chain. Each truck is even equipped with a small satellite dish that is connected to the LAN so that a trucker on the New Jersey Turnpike headed for New York can call for a replacement tractor if his or her rig breaks down.

Obviously, a computer malfunction is a possible disaster. Four hours of downtime is equivalent to \$6.2 million in lost sales. Thus Perdue has separate systems and processes in place to avoid such problems. In addition to maximizing on-time delivery, this system gives the salespeople more time to discuss wants and needs with customers, handle customer relations, and observe key marketing issues such as Perdue shelf space and location.

On the other hand, Perdue does not believe that automation solves all problems. For example, it was decided that electronics monitoring in the poultry houses is counterproductive and not cost-effective. While it would be possible to develop systems to monitor and control almost every facet of the chicken house environment, Perdue is concerned that doing so would weaken the invaluable link between the farmer and the livestock; that is, Perdue believes that poultry producers need to be personally involved with conditions in the chicken house in order to maximize quality and spot problems or health challenges as soon as possible.

RESEARCH AND DEVELOPMENT

Perdue is an acknowledged industry leader in the use of technology to provide quality products and service to its customers. A list of some of its technological accomplishments is given in Exhibit D. As with everything else he does, Frank Perdue tries to

EXHIBIT D

Perdue Farms, Inc., Technological Accomplishments

- Breed chickens with 20% more breast meat
- First to use digital scales to guarantee weights to customers
- First to package fully cooked chicken products on microwavable trays
- First to have a box lab to define quality of boxes from different suppliers
- First to test both its chickens and competitors' chickens on 52 quality factors every week
- Improved on-time deliveries 20% between 1987 and 1993

leave nothing to chance. Perdue employs 25 people full time in the industry's largest research and development (R&D) effort, including five with graduate degrees. It has specialists in avian science, microbiology, genetics, nutrition, and veterinary science. Because of its R&D capabilities, Perdue is often involved in USDA field tests with pharmaceutical suppliers. Knowledge and experience gained from these tests can lead to a competitive advantage. For example, Perdue has the most extensive and expensive vaccination program among breeders in the industry. As a result, Perdue growers have more disease-resistant chickens and one of the lowest mortality rates in the industry.

Perdue is not complacent. According to Dr. Mac Terzich, doctor of veterinary medicine and laboratory manager, Perdue really pushes for creativity and innovation. Currently, the company is working with and studying some European producers who use a completely different process.

HUMAN RESOURCES MANAGEMENT

When entering the Human Resources Department at Perdue Farms, the first thing one sees is a prominently displayed set of human resources corporate strategic goals (Exhibit E). Besides these human resources corporate strategic goals, Perdue sets annual company goals that deal with "people." Fiscal year 1995s strategic "people" goals center on providing a safe, secure, and productive work envi-

ronment. The specific goals are included on the wallet-sized, fold-up card mentioned earlier (see Exhibit A).

Strategic human resources planning is still developing at Perdue Farms. According to Tom Moyers, vice president for human resources management, "Every department in the company has a mission statement or policy which has been developed within the past 18 months. . . . Department heads are free to update their goals as they see fit. . . . Initial strategic human resource plans are developed by teams of three or four associates. . . . These teams meet once or twice a year company-wide to review where we stand in terms of meeting our objectives."

To keep associates informed about company plans, Perdue Farms holds "state of the business meetings" for all interested associates twice a year. For example, during May 1994, five separate meetings were held near various plants in DelMarVa, the Carolinas, Virginia, and Indiana. Typically, a local auditorium is rented, overhead slides are prepared, and the company's progress toward its goals and its financial status are shared with its associates. Discussion revolves around what is wrong and what is right about the company. New product lines are introduced to those attending, and opportunities for improvement are discussed.

On joining Perdue Farms, each new associate attends an extensive orientation that begins with a thorough review of the *Perdue Associate Handbook*. The handbook details Perdue's philosophy

EXHIBIT E

Human Resources Corporate Strategic Goals

- Provide leadership to the corporation in all aspects of human resources, including safety, recruitment and retention of associates, training and development, employee relations, compensation, benefits, communication, security, medical, housekeeping, and food services.
- Provide leadership and assistance to management at all levels in communicating and implementing company policy to ensure consistency and compliance with federal, state, and local regulations.
- Provide leadership and assistance to management in maintaining a socially responsible community image in all our Perdue communities by maintaining positive community relations and encouraging Perdue associates to be active in their community.
- Provide leadership and assistance to management in creating an environment wherein all associates can contribute to the overall success of the company.
- Be innovative and cost-efficient in developing, implementing, and providing to all associates systems that will reward performance, encourage individual growth, and recognize contribution to the corporation.

on quality, employee relations, drugs and alcohol, and its code of ethics. The orientation also includes a thorough discussion of the Perdue benefit plans. Fully paid benefits for all associates includes (1) paid vacation, (2) eight official paid holidays, (3) health, accident, disability, and life insurance, (4) savings and pension plans, (5) funeral leave, and (6) jury duty leave. The company also offers a scholarship program for children of Perdue associates.

Special arrangements can be made with the individual's immediate supervisor for a leave of absence of up to 12 months in case of extended non-job-related illness or injury, birth or adoption of a child, care of a spouse or other close relative, or other personal situations. Regarding the Family and Medical Leave Act of 1993, although opposed by many companies because its requirements are far more than their current policies, the act will have little impact on Perdue Farms, since existing leave of absence policies are already broader than the new federal law.

Perdue Farms is a nonunion employer. The firm has had a long-standing open-door policy, and managers are expected to be easily accessible to other associates, whatever the person's concern. The open door has been supplemented by a formal peer-review process. While associates are expected to discuss problems with their supervisors first, they are urged to use peer review if they are still dissatisfied.

Wages and salaries, which are reviewed at least once a year, are determined by patterns in the poultry industry and the particular geographic location of the plant. Changes in the general economy and the state of the business are also considered.

Informal comparisons of turnover statistics with others in the poultry industry suggest that Perdue's turnover numbers are among the lowest in the industry. Perdue also shares workers' compensation claims data with its competitors, and incidence rates (for accidents) are also among the lowest in the industry. Supervisors initially train and coach all new associates about the proper way to do their jobs. Once trained, the philosophy is that all associates are professionals and, as such, should make suggestions about how to make their jobs even more efficient and effective. After a 60-day introductory period, the associate has seniority based on the starting date of employment. Seniority is the determining factor in promotions where qualifications (skill, proficiency, dependability, work

record) are equal. Also, should the workforce need to be reduced, this date is used as the determining factor in layoffs.

A form of management by objectives (MBO) is used for annual performance appraisal and planning review. The format includes a four-step process:

1. Establish accountability, goals, standards of performance, and their relative weights for the review period.
2. Conduct coaching sessions throughout the review period, and document these discussions.
3. Evaluate performance at the end of the review period, and conduct an appraisal interview.
4. Undertake next review period planning.

The foundation of human resources development includes extensive training and management development plus intensive succession planning and career pathing. The essence of the company's approach to human resources management is captured in Frank Perdue's statement:

We have gotten where we are because we have believed in hiring our own people and training them in our own way. We believe in promotion from within, going outside only when we feel it is absolutely necessary—for expertise and sometimes because our company was simply growing faster than our people development program. The number one item in our success has been the quality of our people.

FINANCE

Perdue Farms, Inc., is a privately held firm and considers financial information to be proprietary. Hence available data are limited. Stock is primarily held by the family and a limited amount by Perdue management. *Forbes* (December 5, 1994) estimates Perdue Farms revenues for 1994 at about \$1.5 billion, net profits at \$50 million, and the number of associates at 13,800. The January 1995 purchase of Showell Farms, Inc., should boost revenues to more than \$2 billion and the number of associates to about 20,000.

The firm's compound sales growth rate has been slowly decreasing during the past 20 years,

mirroring the industry, which has been experiencing market saturation and overproduction. However, Perdue has compensated by wringing more efficiency from its associates; for example, 20 years ago, a 1% increase in associates resulted in a 1.3% increase in revenue. Today, a 1% increase in associates results in a 2.5% increase in revenues (see Table 1).

Perdue Farms has three operating divisions: Retail Chicken (62% of sales, growth rate 5%), Food-service Chicken and Turkey (20% of sales, growth rate 12%), and Grain and Oilseed (18% of sales, growth rate 10%). Thus the bulk of sales comes from the sector—retail chicken—with the slowest growth rate. Part of the reason for the slow sales growth in retail chicken may stem from Perdue Farm's policy of selling only fresh—never frozen—chicken. This has limited the company's traditional markets to cities that can be serviced overnight by truck from production facility locations, for example, New York, Boston, Philadelphia, Baltimore and Washington, which are pretty well saturated (developing markets include Chicago, Cleveland, Atlanta, Pittsburgh, and Miami). On the other hand, foodservice and grain and oilseed customers are nationwide and include export customers in eastern Europe, China, Japan, and South America. Perdue Farms has been profitable every year since its founding, with the exception of 1988. Company officials believe the loss in 1988 was caused by a decentralization effort begun during the early eighties. At that time, there was a concerted effort to push decisions down through the corporate ranks to provide more autonomy. When the new strategy resulted in higher costs, Frank Perdue responded quickly by returning to the basics, recon-

solidating and downsizing. Now the goal is to constantly streamline in order to provide cost-effective business solutions.

Perdue Farms has a conservative approach to financial management, using retained earnings and cash flow to finance asset replacement projects and normal growth. When planning expansion projects or acquisitions, long-term debt is used. The target debt limit is 55% of equity. Such debt is normally provided by domestic and international bank and insurance companies. The debt strategy is to match asset lives with liability maturities and have a mix of fixed-rate and variable-rate debt. Growth plans require about \$2 in projected incremental sales growth for each \$1 in invested capital.

THE U.S. POULTRY INDUSTRY

U.S. annual per capita consumption of poultry has risen dramatically during the past 40 years from 26.3 pounds to almost 80 pounds in 1990. Consumption continued to grow through 1994 according to a broiler industry survey of the largest integrated broiler companies. Output of ready-to-cook product increased 5.8% in 1991, 5.3% in 1992, 6.0% in 1993, and 7.9% in 1994 to 508 million pounds per week.

Recent growth is largely the result of consumers moving away from red meat due to health concerns and the industry's continued development of increased-value products such as pre-cooked or roasted chicken and chicken parts. Unfortunately, this growth has not been very profitable due to chronic overcapacity throughout the industry that has pushed down wholesale prices. The industry has experienced cyclic troughs before, and experts expect future improvement in both sales and profits. Still, razor-thin margins demand absolute efficiency.

Fifty-three integrated broiler companies account for approximately 99% of ready-to-cook production in the United States. While slow consolidation of the industry appears to be taking place, it is still necessary to include about 20 companies to get to 80% of production. Concentration has been fastest among the top four producers. For example, since 1986, market share of the top four has grown from 35% to 42% (see Table 2).

Although the DelMarVa Peninsula (home to Perdue Farms, Inc.) has long been considered the

TABLE 1

**Annual Compound Growth Rate:
Revenues and Associates**

	Revenue Growth	Associate Growth
Past 20 years	13%	10%
Past 15 years	11%	8%
Past 10 years	9%	5%
Past 5 years	5%	2%

TABLE 2**Nation's Top Four Broiler Companies, 1995***

	Million Heads	Million Pounds
1. Tyson Foods, Inc.	26.70	88.25
2. Gold Kist, Inc.	13.40	44.01
3. Perdue Farms, Inc.	10.97†	42.64†
4. ConAgra, Inc.	10.50	37.91

*Based on average weekly slaughter; Broiler Industry Survey, 1995.

†Includes figures for Showell Farms, Inc., which Perdue acquired in January 1995.

birthplace of the commercial broiler industry, recent production gains have been most rapid in the Southeast. Arkansas, Georgia, and Alabama are now the largest poultry producing states—a result of abundant space and inexpensive labor. The Southeast accounts for approximately 50% of the \$20 billion U.S. chicken industry, employing 125,000 people across the region. Still, DelMarVa chicken producers provide about 10% of all broilers grown in the United States. This is due largely to the region's proximity to Washington, Baltimore, Philadelphia, New York, and Boston. Each weekday, more than 200 tractor trailers loaded with fresh dressed poultry leave DelMarVa headed for these metropolitan markets.

Seven integrated companies operate 10 feed mills, 15 hatcheries, and 13 processing plants on the DelMarVa Peninsula, employing approximately 22,000 people and producing approximately 10 million broilers each week (see Table 3).

THE FUTURE

Considering Americans' average annual consumption of chicken (almost 80 pounds per person in 1990), many in the industry wonder how much growth is left. For example, after wholesale prices climbed from 14 cents per pound in 1960 to about 37 cents per pound in 1989, the recession and a general glut in the market caused prices to fall back (see Figure 1). Although prices rebounded somewhat in 1993 and 1994, in real terms the price of chicken remains at an all-time low. A pound of chicken is down from 30 minutes of an

TABLE 3**Integrated Broiler Producers Operating on the DelMarVa Peninsula***

	National Rank
Tyson Foods, Inc.	1
Perdue Farms Inc. (includes Showell Farms, Inc., which Perdue acquired in January 1995)	3
ConAgra, Inc.	4
Hudson Foods, Inc.	7
Townsend, Inc. (Millsboro, Delaware)	10
Allen Family Foods, Inc. (Seaford, Delaware)	14
Mountaire Farms of Delmarva, Inc. (Selbyville, Delaware)	26

*DelMarVa Poultry Industry, Inc., May 1995 fact sheet.

average worker's 1940 wage to only 4.5 minutes of a 1990 wage.

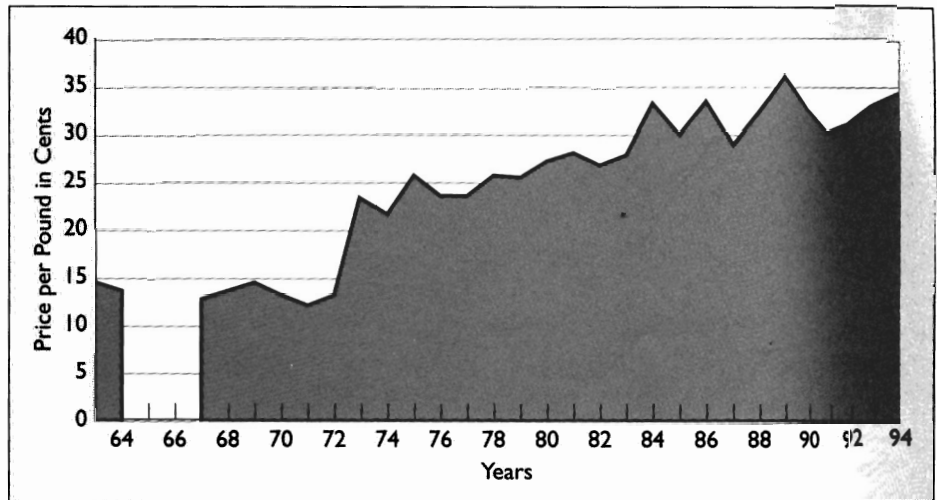
While much of this reduction can be justified by improved production efficiencies, prices are clearly depressed due to what some consider overcapacity in the industry. For example, in 1992, ConAgra, Inc., temporarily stopped sending chicks to 30 DelMarVa growers to prevent an oversupply of chickens, and several chicken companies have started to experiment with producing other kinds of meats—from pork to striped bass—to soften the impact (Kim Clark, *The Sun*, July 4, 1993).

The trend is away from whole chickens to skinless, boneless parts. Perdue has responded with its line of Fit 'n Easy products with detailed nutrition labeling. It is also developing exports of dark meat to Puerto Rico and chicken feet to China. Fresh young turkey and turkey parts have become an important product, and the Perdue Done It! line has been expanded to include fully cooked roasted broilers, Cornish hens, and parts. Recently, the company has expanded its lines to include ground chicken and turkey sausage.

Frank Perdue reflected recently that "... we have a very high share of the available supermarket business in the Middle Atlantic and Northeastern

FIGURE 1

Wholesale Price per Pound of Live Broilers as Received by Farmers.



United States, and if we were to follow that course which we know best—selling to the consumer through the retailer—we'd have to consider the Upper Midwest—Pittsburgh, Chicago, Detroit, with 25 to 30 million people.

Public Sources of Information

- Barmash, Isadore, "Handing Off to the Next Generation," *New York Times*, July 26, 1992, Business, p. 1.
- Bates, Eric, and Bob Hall, "Ruling the Roost," *Southern Exposure*, Summer 1989, p. 11.
- Clark, Kim, "Tender Times: Is Sky Falling on the Chicken Boom?" *The Sun*, July 4, 1993, Business, p. 4F.
- "Facts About the DelMarVa Broiler Industry—1973," *Industry Bulletin*, February 25, 1974.
- "Facts About the DelMarVa Poultry Industry," *DelMarVa Poultry Industry, Inc.*, May 1995.
- Fahy, Joe, "All Pain, No Gain," *Southern Exposure*, Summer 1989, pp. 35-39.
- Flynn, Ramsey, "Strange Bird," *The Washingtonian*, December 1989, p. 165.
- "The 400 Largest Private Companies in the U.S.," *Forbes*, December 5, 1994.
- Gale, Bradley T., "Quality Comes First When Hatching Power Brands," *Planning Review*, July-August, 1992, pp. 4-48.
- Goldoftas, Barbara, "Inside the Slaughterhouse," *Southern Exposure*, Summer 1989, pp. 25-29.
- Hall, Bob, "Chicken Empires," *Southern Exposure*, Summer 1989, pp. 12-19.
- "Golden Jubilee! Company Honors Frank Perdue for His 50 Years of Service," *Perdue Courier* (Special Edition), July 1989.
- "In the Money: Downhome Retailer is Nation's Richest," *Forbes* says," *Washington Post*, October 14, 1986.
- MacPherson, Myra, "Chicken Big," *Washington Post, Potomac Magazine*, May 11, 1975, p. 15.
- "Nation's Broiler Industry," *Broiler Industry*, January 1995.
- "Perdue Chicken Spreads Its Wings," *Business Week*, September 16, 1972, p. 113.
- Perdue Farms Incorporated—Historical Highlights*, Perdue Farms, Inc., publication, September 1992.
- Perdue, Frank, Speech at Babson College, April 28, 1981.
- Perdue, Frank, Speech to firm's leaders, accountants, and Perdue Associates, September 1991.
- Poultry industry file, Miscellaneous newspaper clippings from 1950 to 1994, The Maryland Room, Blackwell Library, Salisbury State University.
- Santosus, Megan, "Perdue's New Pecking Orders," *CIO*, March 1993, pp. 60-68.
- Scarupa, Henry, "When Is a Chicken Not a Football?" *The (Baltimore) Sun Magazine*, March 4, 1973, pp. 5-12.
- "Silent Millionaires in America," *Economist*, 270 (7072), March 17, 1979.
- Sterling, Bill, "Just Browsin'," *Eastern Shore News*, March 2, 1988.
- "The Perdue Story. And the Five Reasons Why Our Consumers Tell It Best," Perdue Farms, Inc., publication, October 1991.
- Thornton, Gary, "Data from Broiler Industry," Elanco Poultry Team, partner with the poultry industry, December 1993.
- Yeoman, Barry, "Don't Count Your Chickens," *Southern Exposure*, Summer 1989, pp. 21-24.