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JBS Swift & Co.

The proposed sale of Greeley, Colorado-based Swift & Co. neared completion in late May, 2007. Swift & Co. was the third-largest producer of fresh beef and pork in the U.S., with $10 billion in annual sales. HM Capital Partners LLC (Hicks Muse), the Dallas, Texas-based private equity firm that had purchased the company from ConAgra nearly four years before, was initially expected to have resold the company shortly afterwards. But when the discovery of Bovine Spongiform Encephalopathy (BSE, or mad cow disease) among U.S. cattle in December 2003 led to declines in Swift's share price, as well as the closing of Asian markets to U.S. beef, Hicks Muse opted to wait.

Between 2003 and 2006, Swift showed declining profitability. And in December 2006, U.S. government immigration officials swept through the company's plants, detaining over 1,200 employees alleged to be illegal aliens, some involved in identity theft. Swift had valid paperwork for the employees, only a handful of whom were ever charged. But the company estimated that the fallout from the raids and ongoing legal battles had come at a price tag of $50 million. In January 2007, Hicks Muse announced its intention to put Swift up for sale.

Employees of Swift & Co. followed news and rumors about the sale, gleaning in mid-May that two of the three big U.S. firms—Cargill, Smithfield Beef and National Beef—that had initially presented bids had dropped out in the final round of the process, leaving only one major U.S. firm and a small plant operator out of South America. One manager recalled, "In late May, I got a call before dawn telling me that the sale had been finalized. I was in the office by six a.m., and learned we had been bought by a company named JBS. I thought, 'Who?'"

Within two days, Wesley Batista (Wesley), son of JBS's founder José Batista Sobrinho, arrived in Greeley from his native Brazil. Accompanied by a translator as he spoke almost no English, Batista interviewed several Swift managers during the following six weeks. When the sale closed on July 11, 2007, the company was renamed JBS Swift & Co., and Wesley, who took over as CEO, was ready to announce his new managerial team and introduce sweeping changes to the company's management and operations.

In December 2007, JBS moved to acquire a 50% stake in an Italian meat packing company, Inalca. Then, in March 2008, nearly before the ink was dry on the earlier acquisitions, JBS announced its purchase of National Beef Packing Company, LLC (National Beef), Smithfield Beef Group, Inc. (Smithfield), and Tasman Group, Ltd. of Australia (Tasman). If approved by U.S. regulatory authorities, these new holdings would give JBS a global footprint, making it the largest beef supplier in the U.S. and in the world.

Professor David E. Bell and Research Associate Catherine Ross, Global Research Group, prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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While actors in the U.S. beef industry asked themselves what the rash of acquisitions by the Brazilian company might portend in their home market, Wesley faced a different set of questions and challenges in September 2008. Under his leadership, JBS Swift & Co. needed to be the cornerstone for JBS's leap from being a $2 billion company with operations in Brazil and Argentina to a $22 billion global beef powerhouse with operations in the U.S., South America, Europe and Australia. JBS was banking on rising demand throughout emerging markets, particularly China, to make these acquisitions profitable. Before that scenario could be realized, however, JBS would need to weather a possibly protracted storm of rising operational costs, a tightened credit market, potential overcapacity and a reduced supply of cattle, within an overall economic downturn. Moreover, JBS's new acquisitions had to make it through a review by the Department of Justice (DOJ) whose purpose was to ensure fair business practices.

Wesley was committed to translating the culture of simplicity, dynamism and efficiency that had made JBS successful in South America into the company's U.S. operations. "Ensuring this cultural change and integrating it throughout a much larger and disperse operation is our greatest challenge," he said. Wesley was aware that some analysts felt that JBS had bitten off more than it could chew; In September, after Moody's announced its intention to downgrade JBS stock if the acquisitions of both National and Smithfield went through, JBS's share price dropped 9.4% to its lowest point in six months. Yet Wesley remained confident, saying, "Many times in our history, we've been told that we wouldn't be able to carry out our plans, but we have always have gone ahead and done it." Wesley and his team had a lot on their plates: they intended to increase production, reduce costs—at least those they could control—all while integrating a new global beef empire.

The Global and U.S. Beef Industry

Global production of beef reached 54.5 million tons in 2007, drawing from a total herd of over 1 billion head of cattle. The U.S. was both the largest producer of beef, accounting for 12 million tons in 2007, as well as the single largest consumer, at 12.8 million tons.[1] (See **Exhibit 1** and **Exhibit 2** for top beef producers and consumers.) Brazil's 2007 production, at 9.5 million tons, was second only to that of the U.S., bypassing the European Union (E.U.) and China, and represented a 7% increase over the previous year. In the U.S., approximately 3,000 companies produced meat products, earning $85 billion in annual revenues in 2007.[2]

After two decades of consolidation, the slaughtering segment of the U.S. industry was highly concentrated: 90% of the meat market for beef, veal and pork was dominated by 50 companies;[3] the top four beef packers—Tyson Foods, Cargill Meat Solutions, JBS Swift and Co., and National Beef Packing Co.—accounted for over 70% of slaughter.[4] (See **Exhibit 3** for largest U.S. meat packers and **Exhibit 4** for the market shares of the top four.)

Outside of the slaughtering segment, however, the industry remained fragmented along the value chain. Processing cattle for fresh or frozen meat products involved several separate stages. First, individual farmers or ranchers bred and raised live cattle until they reached a minimum size threshold (of about 500 pounds). Steers were then sold and transported to feedlots, where operators fattened them with quality-controlled grain feed mixtures until they reached a final weight of about 1,200 pounds. Feedlot operators sold "finished" cattle to slaughterhouses or meat packers, who killed the animals and processed the carcasses into meat products. Finally, meat packers sold their products to supermarkets, grocery store chains, food service, meat distributors, or to commercial users for further processing.

Beef was generally considered a commodity business; narrow margins and significant fixed costs obliged companies to carefully control costs and seek economies of scale. Historically, within the industry, companies within each segment competed with each other, but also fought to obtain a bigger share of the slim profit margins that had to be shared by actors throughout the chain. (See **Exhibit 5** for returns to different segments of the beef value chain.)

Limited communication between farmers, feedlot operators, packers and retailers prevented the entire chain from producing consistent high-quality beef products for which consumers would pay a premium. Pork and poultry producers had been more successful at integration, as these businesses required less time, smaller land area, and fewer agricultural inputs than beef. Cattle, on the other hand, required a lead time to market of two years, compared to six months for poultry, as well as seven to eight pounds of feed-grain for each pound gained by the animal during its “finishing” stage prior to slaughter. (In comparison, poultry required 2.6 pounds of feed for each pound of gained.)[5]

Some attempts at vertical integration within the industry tried to address this problem, with varied degrees of success. National Beef, for example, was owned by U.S. Premium Beef (USPB), a marketing cooperative made up of more than 150 cow-calf producers. National Beef was a leader in developing and marketing branded beef products of superior quality, and directed a portion of the earnings back to farmers and cow-calf operators who had invested in the product.[6] Wesley said that JBS was especially interested in National Beef’s value-added operations. Other beef “brands” included Certified Angus Beef, a division of the American Angus Association, Laura’s Lean Beef, and the Rancher’s Registry line produced by an alliance between Friona, a feedlot, and Cargill.

Industry Trends

In 2008, the beef industry saw rising demand for red meats and increasing worldwide trade. Global demand for beef, pork and poultry was forecast to rise 25% in volume between 2005 and 2015.[7] With incomes rising across Asia, and a demonstrated connection between disposable income and meat consumption, China was seen as leading this anticipated spike. (See **Exhibit 6** for meat demand in Asia.) Already the world’s third largest consumer of beef, China demonstrated a confluence of factors that many analysts expected to turn into greater demand for beef: income growth, urbanization, high relative pork prices, increasing consumer preference for food variety, and consumer perception that beef was healthier than pork.[8]

Globally, beef exports reached 7.5 million tons in 2007, ahead of poultry at 7.2 million tons and pork at 5.2 million tons.[9] U.S. beef exports increased yearly after dropping precipitously when the December 2003 “Christmas cow” discovery of BSE in the U.S. herd led to a ban on U.S. beef in many global markets. (See **Exhibit 7** for U.S. beef exports over time.) After protracted negotiations, Korea re-opened its market to U.S. beef in April 2008. In the first seven months of 2008, the value of U.S. beef exports, at nearly $2 billion, topped that of imports for the first time since 2003, and represented an increase of 37% over the same period in 2007.[10] Nearly half of U.S. exports went to Mexico and Canada in 2008, although forecasters projected Asia to receive a larger share of U.S. beef in the following years.[11]

U.S. beef exports, accounting for 9% of global trade in 2007, were eclipsed by those of Brazil—since 2004 the world’s leading trader—with a 32% share.[12] From a net importer of beef as late as 1986, Brazil increased its herd size by an average of 5 million head per year throughout the 1990s, increasing production at relatively low costs,[13] and posted over 25% annual growth in beef exports between 2000 and 2007. (See **Exhibit 8** for U.S. and Brazilian beef exports.) This performance in beef exports contributed to a $50 billion trade balance surplus for Brazil’s agribusiness sector in 2007, up over 16% from the previous year.[14] In 2008, Brazilian exports seemed poised to grow further, although at a lower rate, as it worked toward overcoming E.U. import restrictions based on health and sanitary concerns.

The History of JBS in Brazil

In the early 1950s, the patriarch of the Batista family, José Batista Sobrinho (José), began purchasing cows to resell to slaughterers in the city of Anápolis, in the Brazilian state of Goiás. In 1953, he opened his own small operation, slaughtering five cows a day. In 1960, when Brazil moved its national capital from Rio de Janeiro inland to the newly built metropolis of Brasilia, José anticipated the new market, moving to the region and opening one of its first slaughterhouses.

Brazil's economic growth brought increasing beef consumption, and the Batista family business, named Friboi, prospered. In 1970, the company acquired a new plant which increased its capacity to 500 head of cattle per day, and in the 1980s invested in processed beef production capacity. Beginning in the mid 1990s, Friboi began expanding its meat processing capacity within Brazil; Friboi acquired 12 processing companies from 1993 to 2005, making it one of the largest meat producers in the country. By 2005, Friboi's slaughtering capacity stood at 5,800 head per day.

José's three sons—José Jr, (Junior), 48 years old in 2008, Wesley, 38, and Joesley, 36—went to work for the family business rather than going to college, starting out in the packing plants on the cutting room floor. The sons took on increasing responsibilities, and in 2000, took over day-to-day management and high level strategic decisions, while their father, 74 years old in 2008, stepped back to play an advisory role. In 2008, Junior served on JBS' board and Joesley headed company operations as the CEO of JBS in Sao Paulo.

In 2005, Friboi made its first international acquisition, buying Swift Armour, Argentina's largest beef producer and exporter. The Batistas restructured the company and renamed it JBS, after the founder's initials. After buying two additional Argentine plants in 2006, JBS had increased its slaughter capacity to 22,600 head per day, with a total of 21 plants in Brazil and Argentina.

"JBS had about 20% of the market in Brazil," said Andre Nogueira, JBS Swift & Co.'s chief financial officer whom the Batistas had recruited away from his prior position at the Bank of Brazil. "Balancing internal and external markets has been a great strength of this company." Wesley believed that operating internationally and offering products tailored to cultural norms was a key to providing value. "The best way to get value from the carcass is selling the right cuts in the right country," he explained. "Every country has cuts that it values more, cuts that it recognizes."[15] For example, some JBS plants produced halal beef according to Islamic law to sell in Egypt, and it sent tripe to Spain and hearts to Russia.

In 2006, with the Brazilian currency, the *real*, exhibiting sustained strength against the U.S. dollar, Brazilian exports were at a disadvantage.[a] This represented a challenge to JBS, which exported more than a third of its beef and generated 61% of its sales through exports to customers in 110 countries, even though major international markets—including the U.S., Canada, Mexico and Korea—were closed to Brazilian beef.

In April of 2007, JBS became the first meat company to offer shares on the Brazilian stock exchange, raising almost $800 million in its initial public offering. Although industry observers at the time believed this capital would be used for further acquisitions in South America, JBS surprised the world by bidding for Swift in the U.S. The Batista family believed that establishing operations in other regions would allow JBS to deal more effectively with currency fluctuations, as well as managing sanitary restrictions or other trade barriers, and were alert to opportunities for other acquisitions. Nogueira said of the Batistas:

[a] In May 1, 2006, one U.S. dollar was equal to 2.09 *reais* (plural of *real*).

> They saw opportunities. JBS was first to export, and strongly, to many different countries. They were exporting ten years before anyone else started thinking about it. They were the first to issue bonds; now many others are doing so. They were the first to invest in Argentina. All of this has happened for one reason—the company's leaders are looking 10 years down the line to see where and how to position the company. They like risk and play well with it. When the U.S. market was in bad shape, they said, "Wonderful, we can buy companies there." They are constantly thinking about how to transform any kind of opportunity.

JBS achieved significant growth in the years prior to its acquisition of Swift. From 2004 to 2006, sales rose 21%, with net income increasing from $50.2 million to $84.3 million. Financial analysts said that JBS' EBITDA margins (earnings before income tax, interest, depreciation and amortization, as a percentage of total sales) of 14.2% in 2004, and 9.1% in 2006 were far greater than those of major players in the U.S. beef packing business.[16] However, JBS also held a high debt load, with $956 million at the end of 2006.

The Batista Business Philosophy

Wesley and Joesley espoused a simple but intense business philosophy that had made JBS a leading company in Brazil. Viewing meat packing as a "disassembly business," Wesley said, "We focus only on what we can control, and forget the rest." In the company's culture, they prioritized simplicity, directness, and the absence of internal politics and egos; in operations, they prized efficiency, economies of scale, a lean cost structure, quality, and operating as close to full capacity as possible. Nogueira said:

> To play in this market—a commodity market with poor margins—you need a cost advantage. JBS plays aggressively to assure low costs. This is a company that survived and became strong because it was efficient in terms of cost in Brazil. It's different in the U.S. The U.S. has been living so well for so long, it is not familiar with how to save, how to be cost efficient. It's easy for a Brazilian company, but for a U.S. company, cost efficiency has not been the culture of the people.

Wesley and Joesley kept an eye on people with whom they came into contact in the industry, and offered jobs to those they believed had both the necessary skills and the personal qualities to fill a need and to contribute and thrive in JBS. Before the company began buying plants outside of Brazil, the brothers saw the need to develop in-house capacities for risk management and information technology (IT). They recruited Marco Sampaio (Marco) away from Cargill's office in Sao Paulo, where he had been working in commodity risk management to begin building JBS's own systems for tracking and managing commodities and currency risk. Marco moved to Greeley in 2007 to head risk management for the JBS Swift. "When I took the job with JBS, it was a gamble. I knew the Batistas were ambitious and smart, and that the company would grow. But I didn't know it would be this fast," said Marco, who at first relocated from Brazil's major financial center, Sao Paulo, to remote Andradina, then the site of JBS's headquarters, 600 kilometers away. "We created the risk management system from zero," he said. Marco appropriated the same hiring style that brought him into the company to fill out his risk management team. "I look for character, intensity and drive first, then competence," he said. Wesley and Joesley also recruited a software engineer, Rogerio Peres, who developed from scratch a software system similar to SAP to manage and track all JBS's operations within Brazil. When JBS moved into Argentina, Peres adapted the system to cover Argentine operations as well, creating a Spanish-language version that interfaced seamlessly with the original. After the Swift acquisition, Peres also relocated to Greeley, heading the IT unit and modifying JBS's internal software to include U.S. operations.

History of Swift & Co.

Swift & Co., like JBS, had a storied history of its own, although its pioneering founder made his innovations a century earlier. In 1855, Gustavus Swift bought his first heifer for $20 at the age of 16, and went on to transform the beef industry in the late 1800s. Swift invented the refrigerated box car to transport beef, as well as a process to disassemble carcasses on a conveyor belt, an approach Henry Ford would later replicate in reverse to assemble cars. By his death in 1903, Swift's company employed over 21,000 people and processed 2 million head of cattle, 4 million hogs and 2 million sheep annually.[17]

In 1987, ConAgra, a branded food conglomerate based in Omaha, Nebraska, acquired what had become the Swift Independent Packing Company, at that time the second largest U.S. meat processor. Shortly afterwards, ConAgra also purchased Monfort, Inc., a lean, family run meat business and at that time the most vertically integrated independent meat company in the U.S. The Monfort family had begun operating in the 1930s as a feedlot operator, but by the time of acquisition, the company was involved in feeding, slaughtering, and fabrication to produce products for hotels, restaurants and supermarkets, as well as transportation and distribution. ConAgra merged Swift and Monfort together.

"At the time, case-ready products—meat products prepared for immediate presentation to consumers in retail outlets—was an idea being developed in the industry," said Martin Dooley, in 2008 head of pork operations for JBS Swift. "ConAgra decided to be the follower, not the leader. It was clear that they were going to sell the red meat business." In 2002, ConAgra took the first step in spinning off its meat business, selling Hicks Muse a 51% share of its beef, pork and lamb holdings, including its Australian operations. The jointly owned entity was renamed Swift & Co. In 2004, Hicks Muse bought the remaining 49% of Swift & Co., becoming sole owner.

Hicks Muse initially focused on preparing the company for resale, but when the BSE outbreak disrupted its plans, Swift seemed to drift. Dooley said, "Little investment was put back into the company. Our cost structure became bloated and out of alignment. Lots of money was spent nonsensically, not put back into our plants, but for systems we didn't need. We created a cumbersome structure in the sales area, and we could not make good decisions with that structure." One senior manager agreed: "Under ConAgra and later, Hicks Muse, we confused ourselves and the market trying to get away from the model of a commodity business; we lost market share, money and focus."

As part of its due diligence prior to the acquisition, Wesley and Joesley had seen that the company was running at higher costs than other actors in the industry, and that it was not using its maximum capacity. Wesley said, "We were surprised to see the lack of alignment; Swift was being run like a consumer goods company, not a commodity business." Steve Williams, head of cattle procurement, said, "When you are the high cost producer, as we were, the breakeven point is reached early; we were the first ones to cut hours. We didn't set out to do this, but it evolved through sloppy management, an emphasis on sales, programs, customer service. Everyone knew it was out of whack, but change had to come from the top."

Hicks Muse put Swift & Co., with operations in the U.S. and Australia, up for sale in early 2007. Bidders in the second round reportedly included a joint bid by Cargill and Smithfield Foods, and another by National Beef. "It didn't look like a very good time to buy," said one observer. "But JBS looked at the potential, and was not put off by the perfect storm of ICE raids, Australian drought, and closed Asian markets." The JBS acquisition of Swift & Co., announced in late May, was finalized on July 11, 2007. JBS paid nearly $1.5 billion for the company, including the assumption of about $1.2 billion in debt.

Back to Basics

With the Swift deal, JBS acquired four beef plants, in Greeley, Colorado, Grand Island, Nebraska, Cactus, Texas, and Hyrum, Utah; three U.S. pork plants; and four cattle feedlots, four beef processing plants and lamb businesses in the U.S. and Australia. Swift had over $9 billion in annual sales, with $2.1 billion in net sales for the quarter ending February 25, 2007, a 4.5% drop from the same period the previous year. In 2005 and 2006, Swift registered a combined EBITDA loss of $163 million. Swift employed 46,840 people, and its customers were retailers, foodservice operations, and companies that further processed meat products. The acquisition made JBS the largest company in the world in terms of slaughter capacity, although Tyson and Cargill were larger in terms of annual beef sales.

By the closing date of July 11, 2007, Wesley had most of his management team in place, and moved immediately to get the company back to the basics of the meat business. "They arrived and were off and running immediately," said one long-time employee about Wesley and the five other Brazilian senior managers who relocated to Colorado. Some former Swift personnel were excited by the prospect of the new ownership. "Had we been bought by one of the big U.S. companies we were expecting, many people anticipated that the Greeley plant might have been shut down," said Williams. "In contrast, JBS was new and exciting, and wanted to invest in Greeley."

Wesley made clear from the outset that he intended to increase production, reduce costs, improve productivity and yields, and simplify management. "There is a higher energy level and a different attitude," said Dooley. "The new culture says that we are out to win, not to simply stay afloat." Swift personnel perceived the cultural change as an embrace of business essentials. Another manager noted, "Now we're back to where the business was during the Monfort days—efficient, lean, making money where you can. We've come full circle."

Wesley and his management team quickly undertook a series of changes at JBS Swift.

Management Restructuring

JBS Swift laid off over 100 people and eliminated five layers of management, reducing the number of levels between plant manager and CEO from nine to four. Wesley also closed off a thickly carpeted corporate office wing of the headquarters building that included an experimental meat processing area which housed large machines used to produce and demonstrate trial packages of new products..

Wesley recomposed Swift's former pork management team, which ConAgra and Hicks Muse management had broken up by moving some pork business veterans into the beef business. "Pork was Swift's strong suit before Hicks Muse," said Dooley, "and is distinct as a business. Now we have the team back together, and with very little attrition. No one in pork has left after the changeover."

The new and simpler structure allowed for greater contact and communication. "Before, the corporate hierarchy was much further from the plant. The CEO had reportedly never been there," said Sergio Sampaio (Sergio), head of beef operations, who arrived in Greeley after years of working for the Batistas in Brazil and then Argentina. "It's important to have a presence," he added. Wesley visited the plant five times in the first year. Williams commented:

> Now there is no communication barrier. In Swift, when we were working for two Harvard-educated CEOs, we had very structured environments. You knew exactly who you were answering to. We still have that clarity, but Wesley will go directly to whoever is responsible. I've never had as much contact—direct, daily contact—as I have working under Wesley. He's trying to understand the whole company, and intentionally breaking down artificial barriers.

Dooley added:

> The simplicity is freeing; people can focus on the task and processes to get to an end point, rather than have to worry about cumbersome processes and politics that make it difficult to succeed. It used to nearly take an Act of Congress to get the okay to invest in something. Now we bring a project to Wesley; if it makes sense and has long-term viability, he'll approve it on the spot, and he will be following up to see how it's going within days. This is refreshing for someone who's been around a while, battling to get things approved.

Getting the Incentives Right

Wesley and the management team reviewed salary and benefits in order to set up a compensation scheme that aligned individual, team and company performance to bonuses. Nogueira said, "Salaries did not change, but we reviewed some benefits, and changed the bonus structure."

The new bonus plan depended on four factors: a percentage of the company's earnings before taxes (EBITDA); the results of the business each person was in (beef or pork); key performance indicators (KPIs) for the plant, or for headquarters in the case of corporate employees; and KPIs that had been set for the particular employee. Nogueira explained, "In corporate, 70% of the bonus is tied to company results and 30% to individual and team results. At plants, it is the opposite; 30% depends on company results, and 70% on the individual and team. So for instance, if a supervisor at a plant is nasty to his employees, there may be low productivity or high turnover, and those correspond to KPIs both for the plant and for his specific position. "

Dooley said, "Wesley spent a tremendous amount of his time to develop that structure and to make sure it was fair and challenging. The structure they built means that although I'm in the pork business, I have to be supportive of beef goals too."

Cost Reductions and Cost-Consciousness

Wesley introduced a monthly managers' meeting to establish budgets, then to review them, tracking actual versus planned costs and trends for the future. Nogueira recalled, "When I arrived here, JBS was importing its cost-efficient culture. I remember one meeting where we were planning a budget for each manager. Wesley was going over it in detail, asking about a $100 item. Someone said, 'We have $1 billion in revenues each month and we need to justify $100?' The answer was yes." Dooley added, "In the complex and competitive business of meat, experience and attention to detail are important. Wesley Batista doesn't miss a detail."

Williams said, "The change in culture was rocky at first. People had to change their work habits and eliminate frivolous spending." Limits were placed on everything from cell phone expenses to printer paper. Color copiers were returned to their leasing companies; managers made it a point to turn off the lights when they left a room. Nogueira commented, "This is hard for American people. But once the expectations were set, the new culture started to take hold."

One senior manager observed, "Wesley has a photographic memory; in these monthly review sessions he'll see an item on chart #27, then go back to chart #5 and ask about link between them. He has patience, capacity, discipline and intellectual curiosity to want to know what the $50 is for, and if it is a one-time or recurring expense. The way Wesley runs this business will change the industry."

Nogueira led a process to analyze insurance costs, and found that Swift was paying $2 million in insurance for all meat transported by container ship against the possibility of the ship sinking. "Never in Swift's history had a ship sunk, and if it had, the loss would likely have been less than the insurance," said Nogueira. JBS cut annual insurance costs from $15 million to $5.7 million. Overall non-salary expenses in the first six months of 2008 were $20 million less than in the same period in 2007, at a time when previous management had tried to cut costs in preparation for the sale of the company.

Besides controlling costs, the new practices allowed Wesley to closely follow the functioning of the business, and conveyed to all staff persons that their performance would not go unnoticed. Williams said, "My area, beef procurement, was always lean in budget terms. What changed for us was not so much how we worked, but that now we were expected to be accountable for it. Accountability is the biggest change I've seen. The new culture involves showing what you've done."

Operational Improvements and Increased Productivity

The management team concentrated on ramping up volumes and tackling operational problems. Even before arriving in Greeley, Wesley had concluded that he wanted to add another shift at the Greeley plant and reduce overtime work. Wesley recalled:

> When we closed on July 11, we said, "What about putting in a second shift?" We were told we couldn't do it immediately; that we would have to do many things before starting up a night shift: we would need a work group to develop a strategy, then we would have to hire people and do training. The response was "It will take a year to begin working a second shift at Greeley." I asked, "Can't we do it right away?" The answer was "No, it's impossible." But we did it. We advertised on the radio. On September 1, forty-five days after we closed, we began the night shift. We did 200 head the first day with 600 new employees. The following week we had 800 people to process 500 head. Within a month, we had 1,000 people producing 1,000 head, and now we are close to full.

By September 2008, production had increased from 14,000 head per day in Swift's four plants to 19,500 head per day. (See **Exhibit 9** for breakout in production improvements by plant.) While JBS increased volumes, it was reducing costs per head, which had fallen by $48, from $212 to $164.

Sergio worked with plant managers to help them get the information they needed to improve productivity and efficiency. They set up accounts for cost centers to track items used in the plants. "Each supervisor needs to be clear on goals and tools," explained Sergio. "We are still working to increase their sense of ownership of the cost accounting." Plants began to track utility costs like water and gas consumption. He added, "They used to keep the water running after cleaning off their boots, and used too much hot water in daily operations. This has been reduced, which is better for the environment and our costs." Water consumption was reduced by 15% between July 2007 and September 2008. "The goal is to reduce it by 40% to 50%," said Sergio, "and we are researching investments to recycle water in the plants. We are working toward instilling a culture of no waste."

Management practices reinforced the culture of efficiency, simplicity and discipline. At 5 a.m. every day, Sergio received reports from the plants on the previous day's processing; at 6:30 a.m., he held a short conference call with the customer service representatives, planners, and shop managers for each plant, and at 8:15, a quick manager's meeting by conference call to check in with human resources, industrial engineering, and product management at each plant. Monthly meetings to review each plant's 15 KPIs alternated between headquarters and the Greeley plant, which allowed greater participation. KPIs included cost per head, getting products to customers on time, labor hour efficiency, plant costs, transportation costs, and amount of absenteeism.

Plant supervisors held regular meetings with their employees to work toward improvement in cutting efficiency. Daily reports that detailed whether good meat was lost through poor cutting initially were reviewed only at the corporate level, not by floor supervisors. "For example, we could see on the report that we made ten cents per head in some primals—large sections of the carcass—but lost twenty cents in others, because of how they made the cuts," said Sergio. "We have to share the right information at the right levels to be sure that people know the standards and understand their importance. We should get 14 lbs. of tenderloin per head; so if we process 1000 carcasses and have only 13,800 lbs of tenderloin, there is a problem." By September 2008, JBS made detailed information on expenses per day available to plant superintendents; by October, JBS planned to share such data at the supervisor level. "The challenge," said Sergio, "is to have 100% of the people thinking about how to do better. We need to teach supervisors this; to ask how we can do better, and be open to ideas from the team."

Challenges for Beef Producers

JBS's revamping of Swift & Co. took place within a challenging context for U.S. beef companies.

In 2008, concerns about safety and proper sanitation continued to affect both exports and domestic sales around the world. An outbreak of hoof and mouth disease in Argentina in 2001 had closed many markets to Argentine beef. In September of 2007, 21.7 million pounds of U.S. beef tainted with *E. coli* were recalled from domestic retail outlets—the second-largest recall in U.S. history.[18] Meat packers, feedlot operators and farmers also faced concerns about the economics of the business. Prices of feed and fuel—fundamental inputs for the meat industry—rose sharply through 2007, although they had abated from record levels by October 2008 (see **Exhibit 10** for feed input prices). Some ranchers and feedlot operators planned to reduce their herds by sending animals to slaughter rather than having to feed cattle over the long winter months; others had switched grazing land over to corn or other high-value crops.

For processors, these pressures exacerbated longer-term industry issues of declining herd size[b] and overcapacity, and fueled expectations of declining production and rising consumer prices. In mid-2008, Tyson Foods' CEO estimated overcapacity at 10,000 to 14,000 head per day.[19] Packers struggled; JBS Swift was one of only a small number of packers to generate positive earnings in the first half of 2008, a significant turnaround given Swift's negative profitability in 2007.

Acquisitions

In early March 2008, JBS announced an ambitious set of new acquisitions that would increase its size and share of the beef industry in the U.S. With its 2007 acquisition of Swift, JBS had already become the third largest beef processor within the U.S., and the largest worldwide, with its holdings in the U.S., Australia, Brazil, Argentina and Europe. The new deals, to acquire the U.S.'s fourth-largest processor, National Beef, and fifth largest, the Smithfield beef division, as well as Australia's Tasman Group, would convert JBS into the largest U.S. beef processor as well. JBS would have a worldwide daily capacity of 80,000 head, with 42,500 head in the U.S., far surpassing the capacity of Cargill, and Tyson Foods (refer to **Exhibit 3**). JBS would hold 30% of beef production capacity in the U.S, compared to Cargill's 20.6% and Tyson's 20.5%.[20] With expected annual sales of $21.5 billion, JBS would employ 63,000 people and operate 120 plants worldwide.

JBS purchased National Beef for $970 million, Smithfield Beef operations for $565 million, including 100% ownership in its feedlot subsidiary Five Rivers, and Tasman Group for $150 million,

[b] The January 2008 U.S. cattle inventory had declined 4.2 million head since 1980 and was at the lowest level since 1971.

subject to normal closing conditions and regulatory review of the deals. JBS announced it would offer $1.5 billion worth of new shares to raise money for the acquisitions.

National Beef operated three beef processing plants as well as two plants that processed case-ready meat—products that could be shipped directly to retailers and placed in cases for consumers with no further repackaging. National also held a Kansas plant that specialized in portioned products tailored for restaurants and other commercial uses, and a transportation company with 1,200 vehicles for transporting live cattle and refrigerated meat.[21] Its California plant exclusively processed natural beef and calf-fed Holsteins, value-added products with which National had seen some success. *Smithfield* operated four beef plants, and calf-raising operations, and was present in areas of the country where National Beef was not. Smithfield's *Five Rivers* operated ten feedlots, with a combined one-time capacity of 811,000 head, some near JBS Swift plants. Smithfield Beef Packing had registered revenues of $3 billion over the 12 months prior to the acquisition, with net earnings of over $130 million,[22] while Five Rivers had revenues of $1.7 billion, and net earnings of $8.8 million. Before the acquisition, Smithfield sold nearly 60% of its cattle to JBS Swift; Wesley said that Smithfield's beef operations would continue to operate independently under JBS, selling to packers other than JBS for the highest available price. *Tasman Group* of Australia processed 600,000 cattle, 2 million lambs and 700,000 sheep annually, with 2007 sales of $465 million. Exports accounted for two-thirds of its sales. (See **Exhibit 11** for locations of beef plants of JBS Swift, its acquisitions, and its top U.S. competitors)

National Beef and Smithfield both welcomed the acquisitions. Like JBS, Smithfield had bid for Swift, seeing that combining the two companies' operations would have provided not only economies of scale, but also a convenient ring of packing plants around their own feedyards and the major U.S. cattle producing areas. When JBS won the bidding instead, Smithfield faced a possibly untenable economic situation and was open to the merger. Days after the announcement, on March 14, National Beef's majority owner USPB's shareholders voted overwhelmingly to approve the deal as a vehicle to access value-added markets and farmer ownership in beef processing.

Not everyone was pleased, however. The American Farm Bureau Federation and the National Cattlemen's Beef Association (NCBA) were sufficiently concerned by the prospect of such sudden consolidation in the industry that they wrote a joint letter to federal regulators requesting close examination of the proposed acquisitions for possible anti-trust violations, noting that the deals would concentrate 71% of U.S. beef processing capacity in the hands of three companies. In an editorial published on the NCBA website, NCBA President Andy Groseta urged regulatory agencies to consider the deal's potential "buyer-side" impacts on cattlemen as well as "seller-side" impacts on consumers, but noted that "the statutory procedures and requirements for this review are already in place.[23]

Results of the DOJ review of the acquisitions were expected by the end of September. Most industry observers believed that the deal would go through uncontested, or that JBS could be required to divest two plants in the Southwest, one each belonging to Smithfield and National Beef.

Challenges Ahead

In the first half of 2008, JBS's U.S. operations began to show signs of a dramatic turnaround. In the fourth quarter of 2007, JBS had reported a $99 million loss from its U.S. and Australian beef operations. But in 2008, the first quarter's loss stood at less than $22 million, and both U.S. and Australian beef sales were up 20% compared to the first quarter of 2007. Improvements in productivity and cost efficiency and strong exports led in the second quarter to a positive EBITDA of $140 million. Dooley said, "It's not a question of whether they will turn around the beef business and make it profitable for the long-term; it's only a question of when."

Yet Wesley and his team faced a set of serious challenges. After Moody's Investors Service warned that it was considering cutting JBS' debt rating to several levels below investment grade, JBS' share price fell 9.4% in September to 5.8 *reais*, its lowest level in six months, and 41% lower than its February 2008 peak of 10.30 *reais*. Moody's cited concerns that JBS might be taking on more debt than it could service if the new acquisitions were approved by the DOJ.

Some analysts had expressed skepticism about the lack of a formal integration plan for National Beef and Smithfield. Wesley had politely declined the integration plan that Swift's outgoing CEO had prepared for JBS Swift, and felt little need to commit an integration plan to paper for National Beef or Smithfield, especially if that required the use of expensive consultants. For Wesley and other senior managers, the priorities for integration were clear. As National Beef already had similar operations and a similar workstyle to JBS, it would be integrated first into JBS's culture and operations, while Smithfield's packing plants and feedlot operations would continue to operate independently.

The issue of integration was one that weighed on Wesley. He said:

> The big challenge for us is to be as big as we are now and not to change our culture—not to permit this company to change what has given us success historically. Some companies change as they grow; people become lazy and bureaucrats, extra layers, and politics are generated. For us, this is the biggest challenge. We are determined to continue to run JBS professionally, with discipline, and not to lose its essence. We want to continue growing and running the business in simple ways.

Regarding the regulatory review process, Wesley did not anticipate any problems, but was aware of the concerns expressed by cow-calf operators and farmers that the coming consolidation might depress cattle prices. "We understand their fears, but if they look at our record, we have always acted to strengthen competitiveness in the industry, not suppress it," said Wesley.

Wesley was confident and optimistic that JBS was on the right track for long-term growth and efficient provision of beef products to consumers all over the world. "We know there is a global shortfall in protein, that demand is rising, and we are putting ourselves in a strategic position to meet that demand," he said. "We know we are good for the debt we have taken on, and that we are making the U.S. beef sector more competitive." Yet he knew he faced potentially lengthy hard times ahead before the potential would be realized. Global economic crisis and illiquidity in credit markets had raised the stakes for JBS's global strategy, adding to reduced cattle supply, high feed and fuel costs, and industry overcapacity as challenges Wesley had to confront.

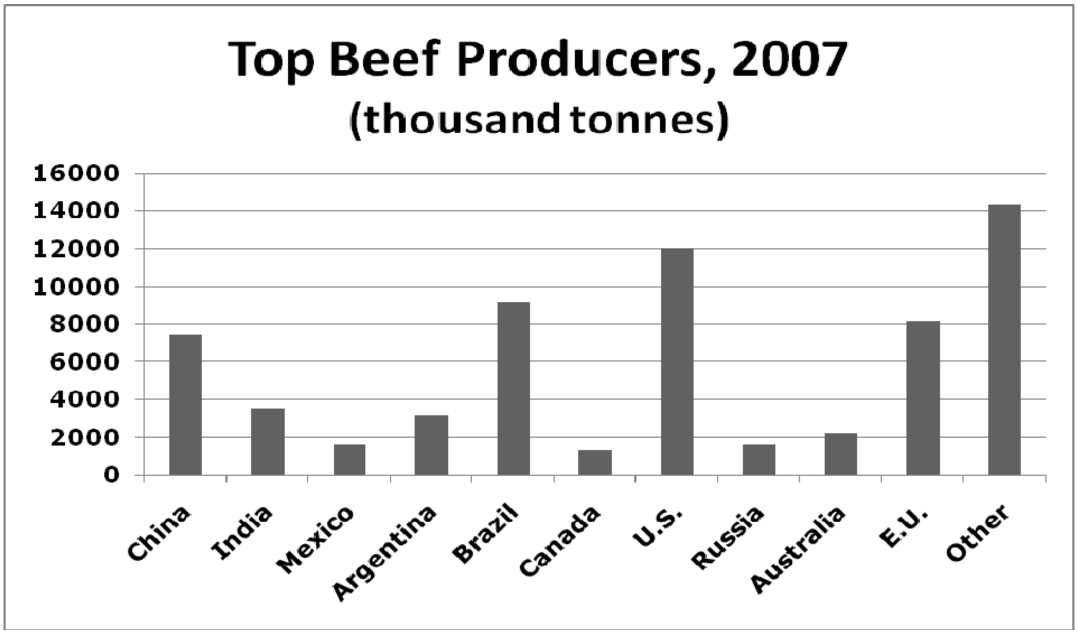
Back in May of 2008, Wesley had looked out the plate glass windows in JBS Swift's third floor conference room at a lowering sky. An unusual tornado watch had been announced in Greeley and he scanned the horizon looking for a funnel cloud. Wesley recalled, "Someone burst into the conference room shouting at me to get into the stairwell." The tornado bypassed the beef plant and headed for JBS' corporate building, hitting it straight on and tearing off the west side of the roof and the "Swift & Co." sign, shattering windows and hurtling debris. As he surveyed the damage, Wesley reflected that he never had had to deal with a tornado in Brazil.

Exhibit 1 Worldwide Beef Production and Consumption (in thousands of tons)

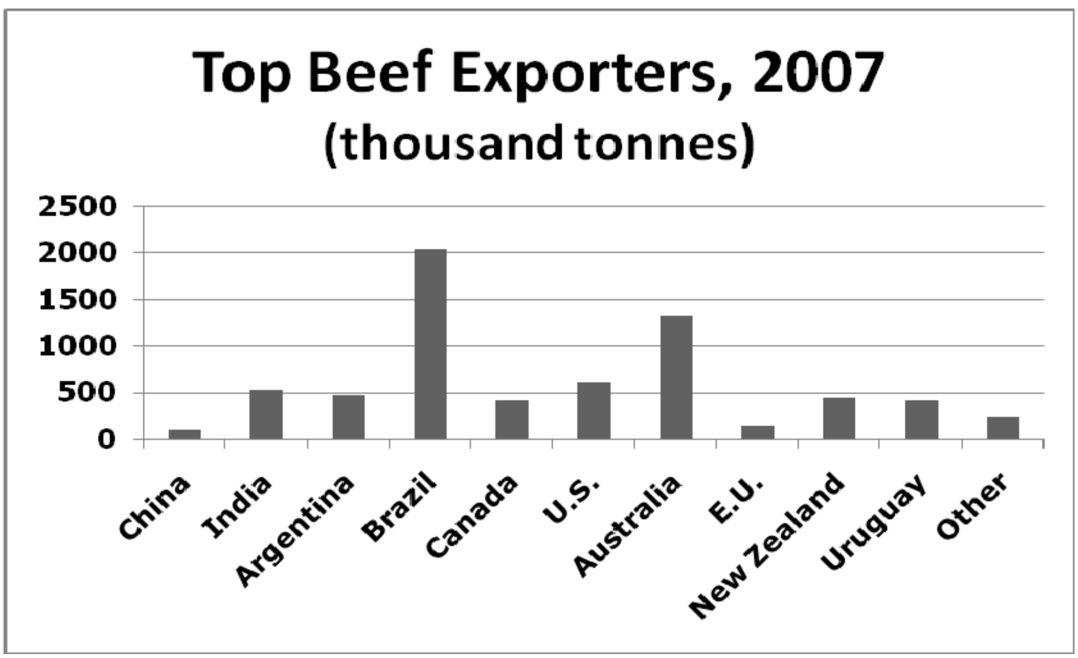
Countries	Beef Production		Beef Consumption	
	2006	2007	2006	2007
U.S.	11,897	11,969	12,800	12,815
Brazil	8,850	9,470	6,935	7,095
European Union	7,880	8,000	8,220	8,550
China	7,500	7,850	7,413	7,756
Argentina	3,100	3,175	2,604	2,655
Mexico	2,150	2,261	2,505	2,555
Australia	2,150	2,261	740	757

Source: Adapted by casewriter from company document, based on USDA data.

Exhibit 2 Top Global Meat Producers and Exporters



Source: Compiled by casewriter using data from FAO, "Food Outlook June 2008," accessed December 3, 2008.



Source: Compiled by casewriter using data from FAO, "Food Outlook June 2008," accessed December 3, 2008.

Exhibit 3 Largest U.S. Meat Packers

Rank	Company Name	U.S. Capacity (head per day)	Number of U.S. Plants	2006 U.S. Beef Sales ($ millions)	2006 U.S. Kill (thousand head)
1	Tyson Foods	22,900	8	11,825[a]	8,390
2	Cargill Meat Solutions	29,000	8	8,500	7,000
3	JBS Swift & Co.	18,800	4	5,579	4,800
4	National Beef Packing Co.	13,900	3	4,636	3,500
5	Smithfield Beef Group	8,050	4	2,575	2,014
6	American Foods Group, LLC	6,500	5	1,900	1,600
7	Greater Omaha Packing Co.	2,800	1	830	715

Source: Compiled by casewriter using data from *Cattle Buyers Weekly* data and estimates.

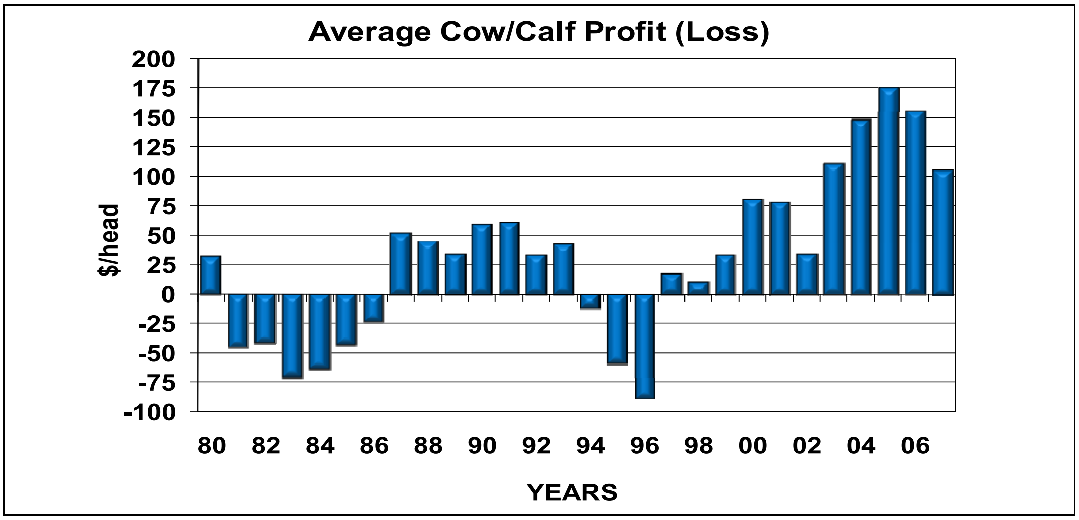
[a]Includes Canada.

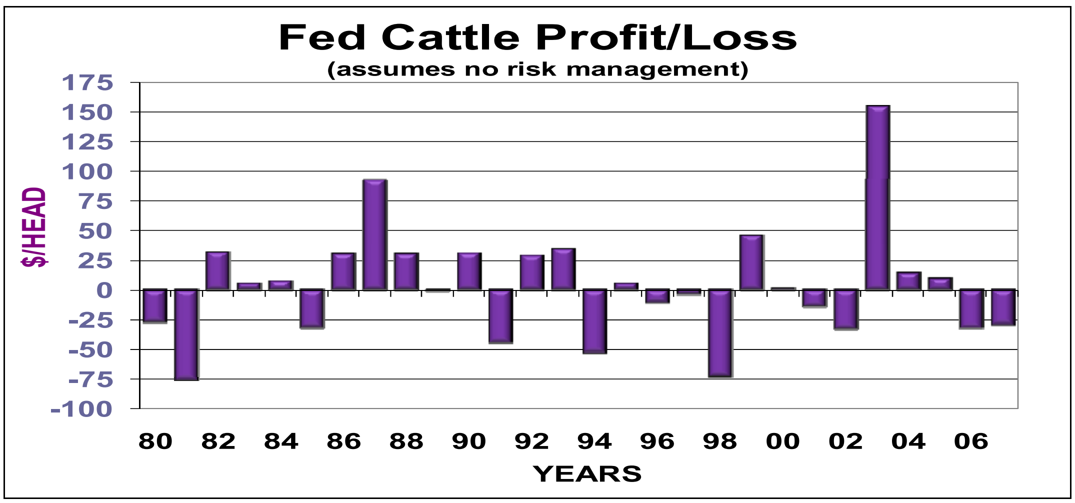
Exhibit 4 Market Share Concentration of the Top Four Firms

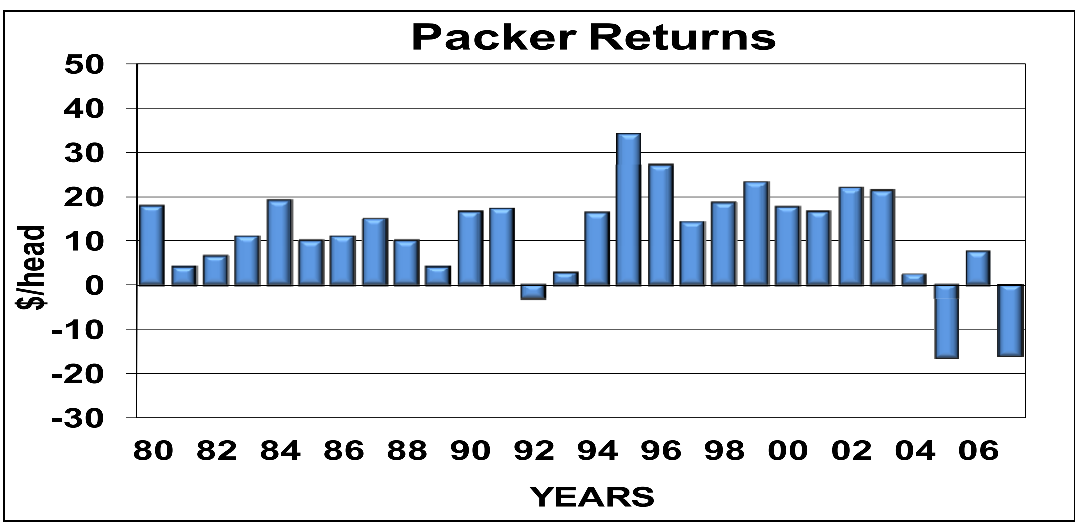
Species	2006	2005	2004	2003	2002	2001
All Cattle	70.0	70.6	68.9	68.8	68.5	69
Steer/Heifer	80.9	79.8	79.3	80.2	79.2	80.4
Boxed Beef	84.1	82.9	82.2	83.6	82.9	84.0
Cows/Bulls	51.3	48.0	42.7	43.6	39.4	34.5
Sheep/Lamb	67.5	69.6	64.7	65.1	65.3	66.2
Hogs	61.4	63.7	64.1	64.2	55.4	56.7

Source: Compiled by casewriter using data from *Cattle Buyers Weekly*.

Exhibit 5 Industry Returns, 1980–2007

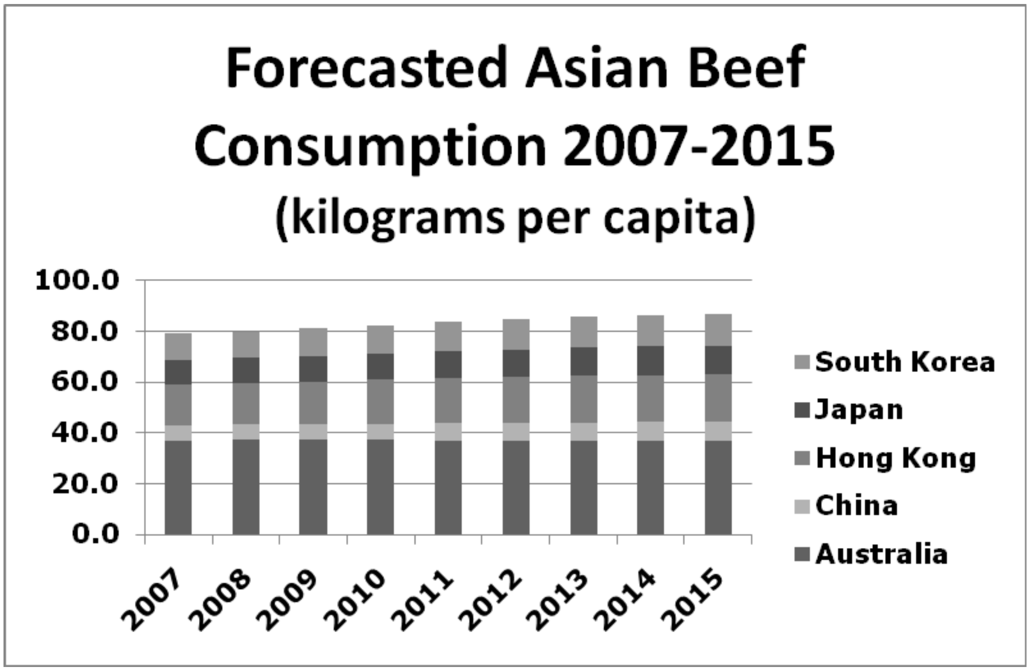






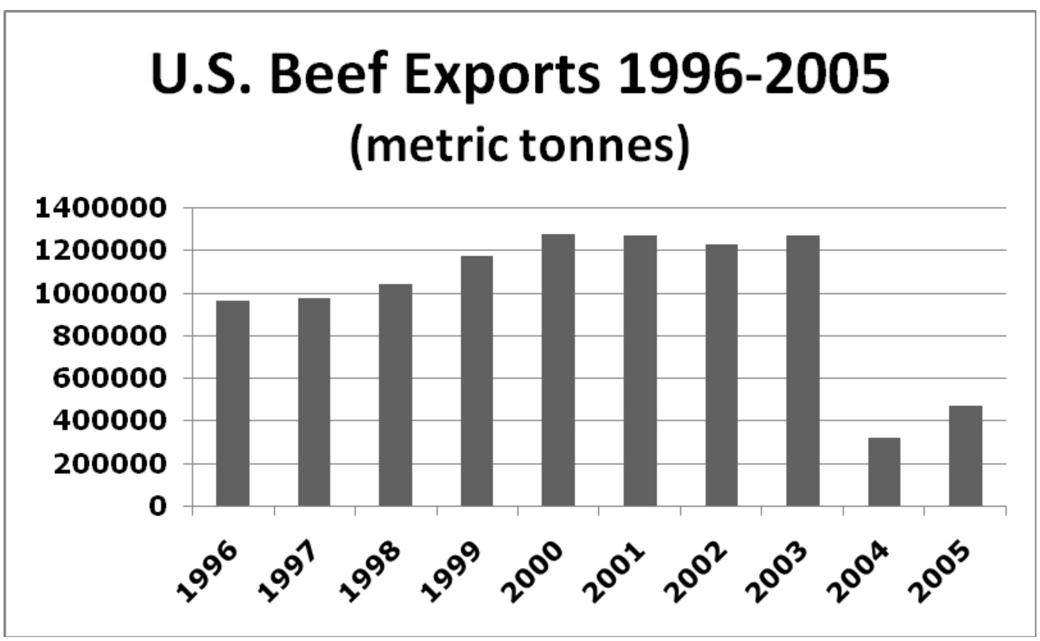
Source: Compiled by casewriter from data supplied by Cattlefax.

Exhibit 6 Per Capita Meat Consumption Growth in Asia.



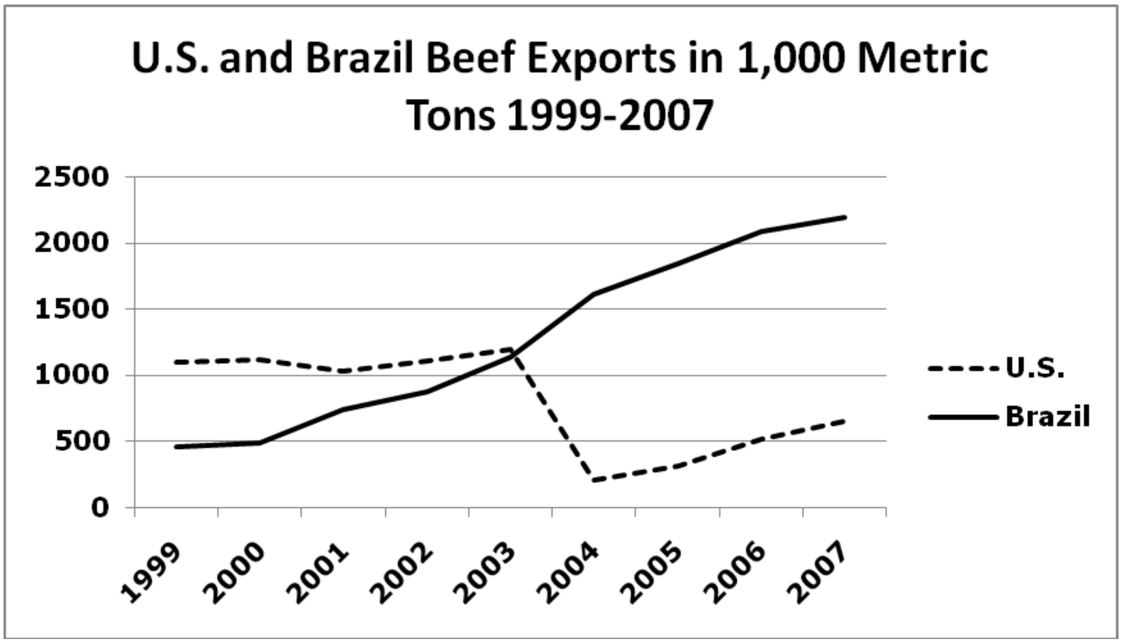
Source: Compiled by casewriter using data from FAPRI, "World Meat: FAPRI 2008 Agricultural Outlook," accessed December 4, 2008.

Exhibit 7 U.S. Beef Exports, 1996–2005



Source: Compiled by casewriter using data from www.USMEF.org, based on USDA data, accessed October 15, 2008.

Exhibit 8 U.S. and Brazilian Beef Exports, 1999-2007



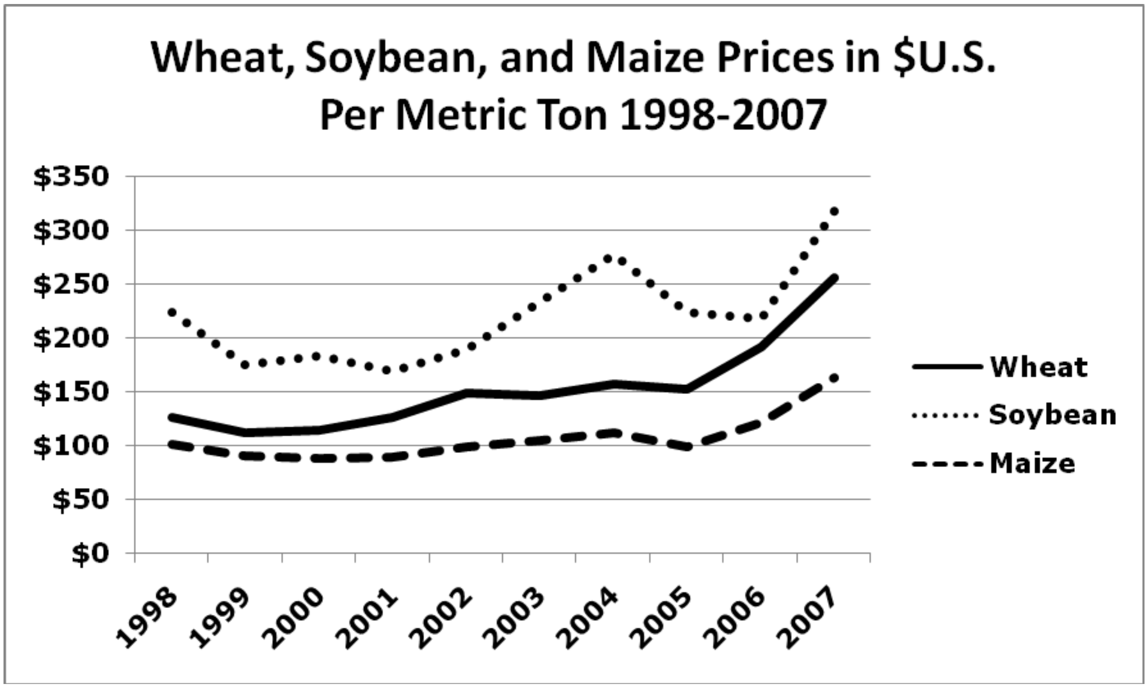
Source: USDA, "Livestock and Poultry: World Markets and Trade," October 2008 and November 2003.

Exhibit 9 Head of Cattle per Day Slaughtered in JBS Swift Beef Packing Plants, 2007–2008

Plant Location	July 2007	September 2008
Greeley, Colorado	3,500	5,500
Grand Island, Nebraska	4,300	5,800
Cactus, Texas	4,800	5,800
Hyrum, Utah	1,700	2,300
TOTAL	14,300	19,400

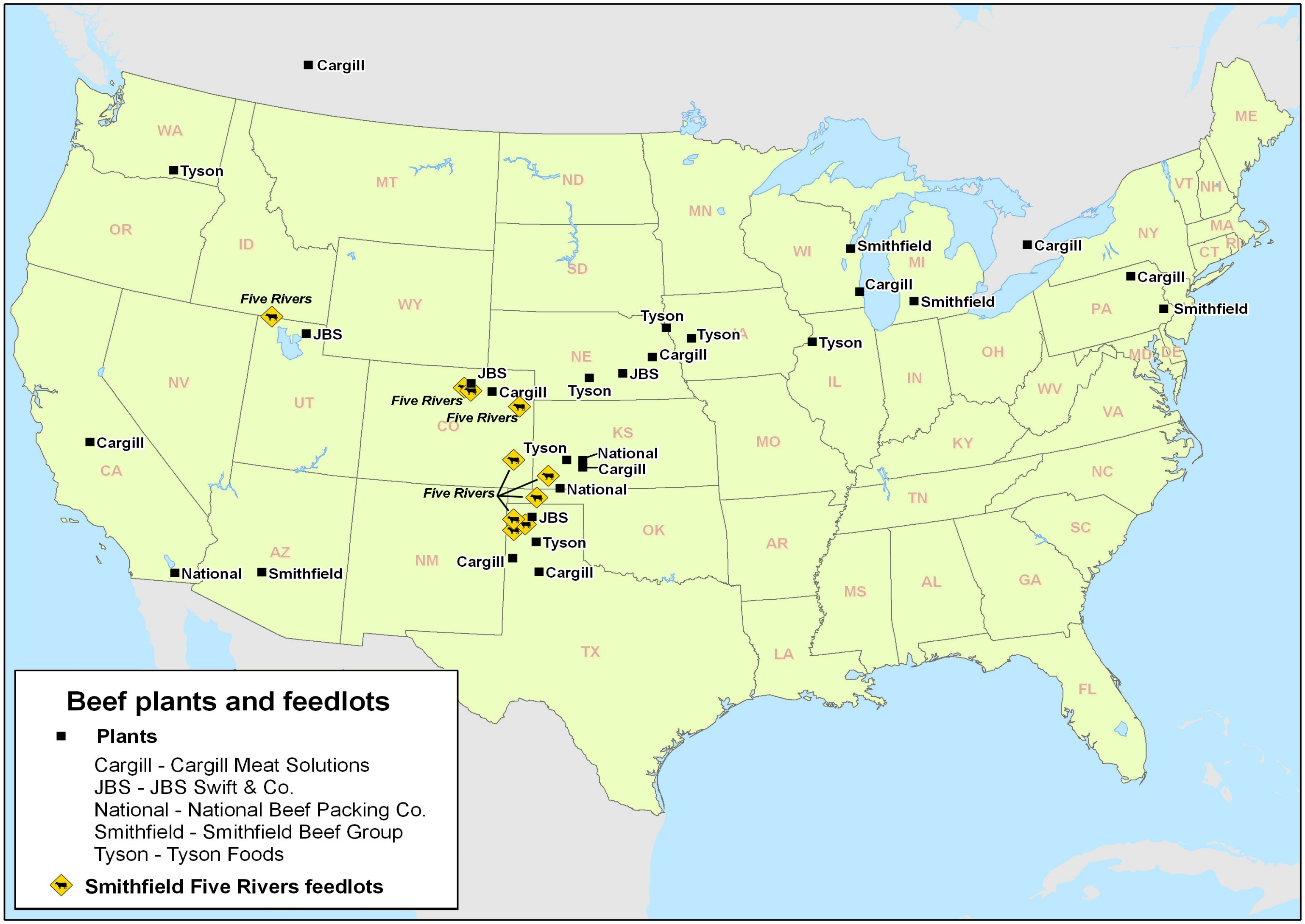
Source: Company document.

Exhibit 10 Corn, Wheat and Soybean Prices, 1976–2007



Source: Compiled by casewriter using data from International Monetary Fund, Data and Statistics, accessed December 4, 2008.

Exhibit 11 U.S. and Canadian Locations of Top Five U.S. Meat Packers' Fresh Beef Plants and Smithfield Beef Group's Feedlots.



Source: Compiled from http://www.tyson.com/Corporate/B2B/FreshMeats/, http://www.cargillmeatsolutions.com/, http://www.jbsswift.com/.

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